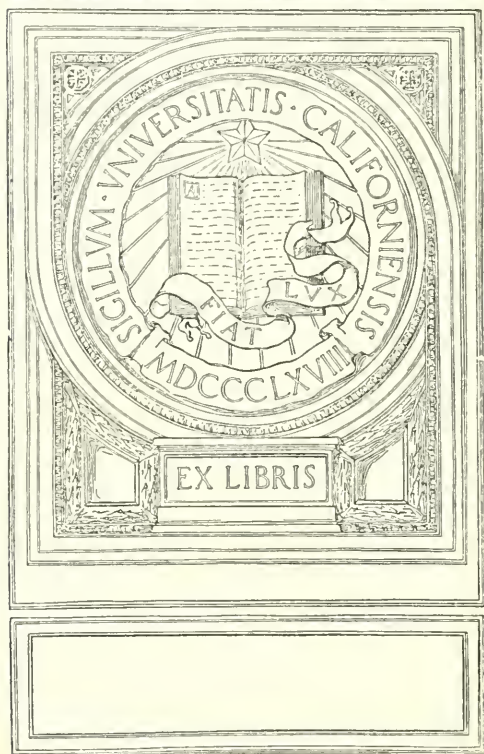


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THE  
THEORY AND PRACTICE  
OF  
BANKING.



THE  
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OF  
BANKING.

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BY  
HENRY DUNNING MACLEOD, Esq., M.A.  
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STATISTICAL SOCIETY OF LONDON.

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Testimony is like the shot of a long bow, which owes its efficacy to the force of the shooter; argument is like the shot of a cross bow, equally forcible whether discharged by a giant or a dwarf.—BOYLE.

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SECOND EDITION.

VOLUME II.

LONDON:  
LONGMANS, GREEN, READER, & DYER.

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1866.

THE AUTHOR RESERVES THE RIGHT OF TRANSLATION.

LONDON:

JOHN KING & COMPANY, LIMITED, PRINTERS, QUEEN STREET, CITY.

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P R E F A C E

TO THE

S E C O N D   V O L U M E .

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THE first volume of this Work was scarcely out of the press, when the crisis which every one conversant with monetary matters knew to be impending, burst with the suddenness and the fury of a tornado, producing a series of Banking catastrophes greater than had ever before happened in the City of London.

All the circumstances attending it, however, and the course which the Government found necessary to pursue—for the *third* time to authorise a suspension of the Bank Act of 1844—have amply confirmed the soundness and the truth of the doctrines set forth in this Work.

The Author may, perhaps, be permitted to direct attention to Chapters XI. and XII. of this Volume, as having an especial interest at the present time.

In Chapter XI. several Theories of Currency of great historical importance are investigated, particularly that of JOHN LAW. It is shown that it is in direct violation of the fundamental conception which



is the true basis of monetary science. Several examples are given of the catastrophes which have always happened when this theory has been reduced into practice.

In Chapter XII. the organisation of the Bank of England is minutely explained, and it is shown to be partially based upon LAW's theory of Paper Money. The singular error of those who think that the Bank Act of 1844 actually carries out the Currency Principle is pointed out. The differences in the organisation of those Banks really formed on the Currency Principle and the Bank of England are set forth. The fundamental differences of principle between the Bullion Report of 1810, the framers of the Act of 1819, and the framers of the Act of 1844 are distinctly explained; and the causes shown why the Act of 1844 always has failed, and always will necessarily fail in a great Commercial Crisis.

The Author has the greatest satisfaction in showing that the great doctrine established in the first edition of this Work in 1856, that the only true method of controlling the Paper Currency, or Credit, is by means of the RATE OF DISCOUNT, was admitted by Mr. Norman, one of the most ardent and influential supporters of the Currency Principle and the Bank Act, before the Parliamentary Committee of 1857, to be perfectly effectual and sufficient. It has also been acknowledged to be the true method by all the most competent authorities, and is now universally adopted in the practice of Europe.

The Author has pointed out that the great and inestimable service that the Bank Act has done is to demonstrate the truth of this principle to the Directors of the Bank, and in fact to compel their adoption of it. All the great objects sought to be obtained by that Act are perfectly and effectually secured by the method pointed out in this Work, and this is the principle upon which the Bank has been managed ever since the great crisis of 1857, and even before that.

It was long ago observed that Commercial Crises seem to have a periodicity of about ten years. The experience of 1847, 1857, and 1866 has shown that whatever benefits the Bank Act has produced, it is wholly incapable—contrary to the expressed anticipation of Sir Robert Peel—of preventing the recurrence or the severity of these catastrophes.

The uniform failure of the Act in every great crisis, in exact conformity with the predictions and the solemn warnings of all the great banking authorities of former times—the sanction given by the Government, now repeated for the third time, to act in direct contravention of the express provisions of an Act of Parliament—the now well-known consequences which would inevitably follow from a maintenance of the Act during one of these crises, which are so dreadful that no Ministry would dare not to suspend it—must necessarily, in this constitutional country, lead to a thorough inquiry, either Parliamentary or otherwise, into the principles upon which the monetary system of

this country is based. It will then be capable of being demonstrated with the greatest facility that the Bank Act has done all the good that it can do; that the Directors of the Bank now perfectly understand, and have for many years now conducted the Bank with the greatest success on sound principles; and that the Act itself having performed this service has done its work; and its operation at other most important times being proved to be injurious, it may now be safely and advantageously repealed—so far, at least, as regards the limitation of the power of issue by the Bank of England.

CAMPDEN HILL,

*June 20th, 1866.*

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THE  
THEORY AND PRACTICE  
OF  
BANKING.

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CHAPTER VIII.

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FROM THE RENEWAL OF THE BANK CHARTER IN  
1800 TO THE ACT FOR THE RESUMPTION OF CASH  
PAYMENTS IN 1819.

GREAT DERANGEMENT OF THE IRISH CURRENCY IN 1804—  
PARLIAMENTARY INVESTIGATION INTO IT, AND REPORT OF  
THE COMMITTEE—SPECULATIONS IN ENGLAND IN 1808, AND  
FOLLOWING YEARS—GREAT DERANGEMENT OF THE ENGLISH  
CURRENCY—APPOINTMENT OF THE BULLION COMMITTEE IN  
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THE PRINCIPLES OF THE REPORT—GREAT CHANGE IN COM-  
MERCIAL OPINION UPON THE SUBJECT—ADOPTION OF THE  
PRINCIPLES OF THE BULLION REPORT IN 1819, AND ACT  
FOR THE RESUMPTION OF CASH PAYMENTS.

1. Soon after the year 1800, a remarkable phenomenon began to attract the notice of persons who had paid attention to the currency. We have just seen how lamentably deficient the harvest of 1799 had been, and the enormous quantities of grain it became necessary to purchase. The autumn of 1799, and the ensuing winter, were equally unfavorable as the preceding had been to all descriptions of farming operations. The spring of 1800 was exceedingly wet, and in the middle of the harvest heavy and continuous rains set in. In consequence, the harvest time was even more calamitous than the preceding one. In the north part of the island, the crops were a total failure. Notwithstanding that the unprecedented quantity of 1,242,507

quarters of wheat were imported, prices continued to rise to a famine scale. The public peace was with difficulty preserved, and in November, when Parliament met, the country was in a very alarming condition. Parliament pursued the usual course, recommended the most stringent economy in the consumption of provisions, and offered to guarantee 100s. a quarter to all who imported wheat. In spite of all these measures, wheat rose in March, 1801, to 156s., barley to 90s., and oats to 47s. In the autumn of 1799, failures of great magnitude took place in Hamburg; 82 houses came down with liabilities amounting to £2,500,000. In consequence of these, discount rose to 15 per cent. Under the influence of the enormous sums of money that had to be sent abroad in purchase of grain, the attraction of this high rate of discount, and other causes, the exchange on Hamburg, which had stood so high for some years, fell in January, 1801, to 29·8., being upwards of 14 per cent. against England.

2. We have already seen that, in the great monetary crisis of 1696-97, it was universally acknowledged by Parliament and the most eminent merchants, that it was the bad state of the coinage which produced the great rise in the market price of bullion, and the heavy fall in the foreign exchanges; and we have seen that the restoration of the coinage immediately rectified the exchange. At that time bank notes were not a legal tender, and the language invariably applied to them, when their current value differed from their nominal value, was that they were at a *discount*. When the men of that day saw that the bank notes were a promise to pay so many "pounds" on demand, and when they saw that the persons who issued them were unable to pay that number of pounds, and that no one would give that number of pounds for them, they never used any other expression regarding these facts, than that the notes were at a discount. There is no trace of any one having thought of saying that it was the notes that denoted the pound sterling, and that bullion had risen. When the reform of the coinage took place, and the exchanges were simultaneously rectified, it was said that the reform of the coinage *caused* the restoration of the exchange, and numerous merchants had written pamphlets to combat a delusion which was rather prevalent among some persons, that bullion as a commodity could have a different value to bullion as coin, except on account of the depreciation of the coinage.

3. Adam Smith had laid it down as a principle, that any permanent difference between the market and the Mint price of bullion must be necessarily caused by the condition of the coinage itself; and Hume had observed that the exchange never could vary but little beyond the cost of the transmission of specie. All these fundamental truths, which are as pure matters of

demonstration as any proposition in Euclid, had been discovered and established long before the period we are now speaking of.

4. Such were the truths established, when a metallic currency was the only one thought of, in estimating value. But at this time a new principle was introduced—there was what was substantially an inconvertible paper currency. At this period most men's ideas were transferred from the metallic currency to the paper currency. Ever since the issue of the £1 notes, people thought of them, when they spoke of prices, as being so many pounds. When the suspension of cash payments first took place there was a general expectation that the Bank notes would be depreciated, but the general resolution of bankers and merchants to support the credit of the Bank, the determination of the Government to receive Bank notes in payment of taxes at their par value, and the great caution exercised by the directors during the first few years after the restriction, had removed all these apprehensions, and for some years Bank notes circulated at par.

5. At this time, however, phenomena occurred which directed the attention of many persons to the state of the paper currency. The market price of standard gold up to September, 1799, had continued at £3 17s. 6d. per ounce, and the price of foreign gold in coin had been somewhat higher, on account of its greater use as coin than as bullion. But in June, 1800, the price of foreign gold experienced a sudden and extraordinary rise; it rose to £4 5s. per ounce; silver rose to 5/7 per ounce; and the foreign exchanges fell below par. In January, 1801, gold and silver had each risen 1s. per ounce, and the exchange at Hamburg was at 29s. 8d., being a depression of 14 per cent. below par. But the expense of transmitting specie to Hamburg was estimated not to exceed 7 per cent., and, consequently, there remained a difference of 7 per cent. to be accounted for.

6. It was at this time that the great and palpable truth was discovered, that if a deterioration of the coinage produced a rise of the market price of bullion above the Mint price, and a fall in the foreign exchanges under a metallic currency, then that the opposite proposition was also necessarily true. That under a paper currency which was only the representative of a metallic currency, if the market price of bullion (*i. e.*, the paper price) exceeded the Mint price, and the foreign exchanges fell beyond the cost of the transmission of specie, that excess could only arise from the depreciation of the representative of the metallic currency, and, therefore, that when these circumstances occurred THEY INFALLIBLY INDICATED THAT THE PAPER CURRENCY WAS DEPRECIATED.



7. We are not certain to whom the merit of the discovery of this great and important truth is due. If he had not the actual merit of discovering it, Mr. Walter Boyd was certainly one of the first to proclaim it, and call public attention to it. It was enforced with much greater ability and clearness by Lord King, and with not so much distinctness by Mr. Henry Thornton, in his *Inquiry into the Effects of Paper Credit*. To these three writers, however, as far as we have been able to ascertain, the merit is due of establishing this principle, which is as important in the subject of currency as the Newtonian law of gravity is in astronomy.

8. The preliminaries of peace with France were signed October, 1801, at London, and the definitive treaty at Amiens, on the 27th March, 1802. The restriction on cash payments expired of itself six months after that event; but, though the Bank declared that its coffers were well supplied with specie, and that it was anxious and ready to resume payments in cash, the Chancellor of the Exchequer, Mr. Addington, brought in a bill on the 9th April, 1802, to continue the restriction till the 1st of March, 1803, which was passed. The arguments alleged in favour of this measure, shew a wonderful decline in financial knowledge in the Government of 1802 compared to 1696. At the latter period, the great reason alleged for the reformation of the coinage, was the adverse condition of foreign exchanges, and the rise of the market above the Mint price, caused by the depreciation of the currency. Notwithstanding the vehement opposition of the enemies of the Government, we have seen the triumphant success of the re-coinage, which restored the public credit and the exchange. The sagacity of a Montague would at once have seen that the adverse state of the exchange, and the high price of bullion, were entirely owing to the depreciated state of the currency, and that the only method of restoring them to par was the immediate resumption of cash payments. So great, however, was the ignorance upon the subject, that the fact of the exchange being adverse, was the very reason alleged why cash payments should *not* be resumed! Sir R. Peel said the course of exchange was, at this moment, against us all over Europe. Mr. Addington, in bringing in the bill, said:—

“It cannot be necessary for me to inform the House that the rate of exchange between this country and foreign parts is disadvantageous to ourselves—that the export trade has been for some months at a stand, that while the rate of exchange is disadvantageous to us, an *augmentation of the circulating cash* would create a trade highly injurious to the commerce of this country. *For several months past, there has been a trade carrying on for purchase of guineas with a view to exportation.* It is on these grounds that I submit to the House the expediency of continuing the restriction with regard to the cash payments of the Bank.”



Why, these were the very reasons why a return to cash payments should have been made without delay ! The reason why the trade of buying up guineas was going on was just because of the redundant quantity of paper ; the paper “promises to pay” were falling in value as compared to the guineas, and, as a necessary consequence, guineas were exported, and, so far from a return to cash payments augmenting the circulating medium, it would infallibly have considerably diminished it by making the Bank reduce its paper issues. It was because the prices of articles were so high in this country that the export trade was unprofitable, and a reduction of the Bank notes would infallibly have compelled such a reduction in prices as would have facilitated the export.

9. The result of this extraordinary amount of financial error could have been easily predicted. The circumstances of the country did not improve, as the Ministry had taken the most effectual measures to prevent them doing so. In February, 1803, Mr. Addington had to come forward again to prolong the restriction. He said that the reasons which suggested it were too strong, and the necessity too urgent, to be resisted. The restriction was continued last Session, because the exchanges were adverse—the exchange at Hamburg was then at par—that with Amsterdam adverse. Upon these grounds, he said, it was expedient to continue the restriction, until the progressive advance of our commerce would produce such a steady inclination of the exchange in our favour, as to render it safe to resume cash payments. That the scarcity of the last three years had made it necessary to export twenty millions of bullion in payment of corn, and until that came back, cash payments could not be resumed. Mr. Fox said that such a mode of arguing went to establish it as a general axiom, that, whenever the exchanges were adverse, cash payments of the Bank ought to be suspended ; and then he touched the right point. “Perhaps, even, it might happen that the unfavourable turn of the exchange against this country *might be owing to the very restriction on the Bank.*” And he said :—

“In 1772, or 1773, when there was a great quantity of bad money in the country, the course of exchange was then also much against us, but when, in the room of this adulterated money, good gold was substituted, the consequence was that the exchanges turned almost immediately in our favour. As long as our currency continued bad, the exchange was against us, so it is now, *because paper is not much better than bad gold* ; as it is attended with the same inconveniences. May it not, therefore, be expected that, as in the former case, when our currency was ameliorated, the course of exchange turned in our favour, so also if the Bank now resumed its cash payments, the same favourable circumstances might attend the change?”

The trace of truth thus hit upon was not followed up; and, while the directors of the Bank alleged that they were perfectly able to resume cash payments, the Ministry enforced a continued restriction upon them, for political reasons, until six weeks after the beginning of the next Session of Parliament. In the Lords, Lord Pelham said that the idea of renewing the restriction at the present moment originated solely with the Government, who had had no communication with the Bank on the matter. The great truth doubtfully hinted at by Mr. Fox, was much more strongly and fully stated by Lord King and Lord Moira in the House of Lords. The Ministry complained that the importation of bullion was hanging fire; was it not plain that the reason was that its value in this country was depreciated by the plethora of paper? and the true way to attract it was by diminishing the quantity of the paper, and so raising the value of the gold. The bill was carried without a division.

10. If the resumption of cash payments was inadvisable under the preceding circumstances, the untimely end of the short and feverish peace in 1803 rendered it still more impracticable, and, immediately upon the opening of the Session, a bill was brought in to continue the suspension. We find it stated that the hoarding of guineas had been going on to such an extent, that it was with the utmost difficulty that they could be procured for the common purposes of life. The Chancellor of the Exchequer talked of the baseness of such a practice, which was inconsistent with public spirit, and the duty of a good citizen. Precisely the same language had been held by the revolutionary leaders in the tribune of the French Convention regarding assignats. The debate in the Lords produced some excellent speeches. Lord Grenville, who had been of the Cabinet who proposed the suspension originally, now gave very evident signs that his opinion was very much altered, and severely censured the attacks of the Chancellor of the Exchequer upon those who preferred to keep their guineas at home. Lord King now gave the clearest enunciation to the principles of a paper currency, which had before been rather feebly hinted at. He said:—

“The natural and only true limit of every paper currency was the power of compelling payment in specie, at the will of the holder. A paper currency, not convertible into specie, had no rule or standard except the discretion of the persons by whom it was issued. To determine the quantity of currency necessary for circulation was in all cases a difficult and delicate problem. *A very strict attention to the price of bullion, and the state of the foreign exchanges, was alone capable of affording a just criterion by which the quantity could be truly ascertained.* Without a perpetual reference to these tests it was impossible

to maintain the full value of the currency. That the Bank directors had failed in the performance of this duty was evident, from the enormous increase in the quantity of their notes, and the great derangements which had taken place in the price of silver and the foreign exchanges since the period of the restriction. He said that the excessive quantity of Bank notes, by raising the market price of silver above the Mint price, was one of the causes of the present scarcity of the silver coin."

11. The Act which restrained the Bank of England from paying in specie, also enacted that country bankers should be liable to discharge their notes in Bank of England paper. Hence the very same rules applied to the issue of the country banks, where paper was convertible into Bank of England notes, as formerly applied to the Bank paper when convertible into specie; and the country Bank paper was based upon Bank of England paper, just in the same way as the latter had been based upon specie. So the Directors of the Bank not only controlled their own issues, but those of every other Bank, in the country, and any excess of paper issued by them was immediately multiplied and propagated throughout the kingdom.

12. The facilities of communication with the metropolis, even in that age which we are now accustomed to consider as slow, as compared with our own, were sufficient to prevent the depreciation of a local currency in Great Britain, at least since 1765, when the Scotch notes were depreciated, on account of certain conditions they contained impeding their payment in gold on demand. But Ireland, from the distance of the sea passage, and the difficulty of access, might be considered as a foreign country, which resemblance was further promoted by its having a currency of its own, distinct from that of Great Britain. The Irish shilling in those days contained 13 pence, and as the pound, both English and Irish, was 240 pence, a slight calculation will shew that £100 English=£108 6s. 8d. Irish. Hence the par of exchange between England and Ireland was called eight and one-third.

13. Although there was no run upon the Bank of Ireland, and the exchange with England was favorable, and bullion was flowing in, the Bank of Ireland was directed by Parliament to suspend its payments in cash at the same time as the Bank of England, and an Act was passed by the Irish Parliament containing analogous provisions to the English Act.

14. Ever since the year 1794, the exchange at Dublin on London had been uniformly in favor of Dublin, standing usually about £7 10s. In the first three months of 1797, it rose so high

as £6 14s. 9d.; in the second three months it rose to £6 7s. 2d.; and in the third period of three months, it attained the very great height of £5 18s. 10d.; the highest it stood at on any day being £5 10s. From that period it began steadily to decline, and it continued to fall progressively through each year, until in January, 1804, it reached the extraordinary depression of £18. No guineas were to be had for Bank of Ireland notes, except at a premium of 2s. 4d. or 2s. 6d. This enormous depression was noticed by Lord Archibald Hamilton, on the 13th Feb. 1804, in the debate on the Irish Bank Restriction Bill. He stated that, when the restriction Act passed, the issues of the Bank of Ireland were £600,000, whereas now they were £2,700,000. He said that between Dublin and Belfast, though not more than 100 miles apart, there was a difference in the exchange of 10 per cent., and that in the exchange with London, it was sometimes as much as 20 per cent. against Dublin. That gold coin rose in value just in proportion as paper was depreciated.

15. This great disorganization of the monetary business between the two countries, at length excited the serious attention of Parliament, and, on the motion of Mr. Foster, a Committee was appointed "to inquire into the cause of the present high rate of exchange between Great Britain and Ireland, and the state of the currency in the latter kingdom." The Committee consisted of Mr. Foster, Lord A. Hamilton, Lord Henry Petty, Lord Folkestone, Mr. Pitt, Mr. Fox, Mr. Grey, Mr. Rose, Mr. Canning, Sir W. Pulteney, Sir J. Newport, Mr. J. C. Beresford, Mr. Sheridan, and Mr. Brogden.

16. The circumstances which gave rise to the appointment of this Committee and its report, are deserving of great attention, as they are the first regular investigation by Parliament into the theory of the paper currency, and they were the antetype of what afterwards occurred in England, and gave rise to the appointment of the Bullion Committee.

17. The Bank of Ireland sent two of its Directors to be examined as witnesses, Mr. Colville and Mr. D'Olier. Mr. Colville stated that the issues of the Bank notes at the time of the restriction were between £600,000 and £700,000, but they were now about £3,000,000; and when asked the motives for such an extraordinary increase, said that the exchange became extremely adverse about two years after the restriction, the money of the country was carried out of it, for the purpose of paying the balances of remittances, and, consequently, as the medium of gold decreased, *it became necessary to supply its place with paper*. He said that, after the restriction, it was necessary to supply notes for the payments that would have



been made in guineas, and this amount he placed at £1,200,000. He admitted that before the restriction, whenever there was a drain of gold from the Bank, they were in the habit of diminishing its issues to strengthen themselves against the continuance of the drain. That whenever the exchange was unfavourable, the necessity for self-preservation compelled them to reduce their issues, and that this limitation was for the purpose of lessening the drain of guineas. But he said that it was generally thought that the extension of paper in Ireland, was the cause of the high exchange, but, in his opinion, it was directly the reverse, inasmuch as far as the circulation of paper has supplied the circulating medium, it enabled the gold which before stood in its place, to be exported out of the country, and so far was a clear and decided cause of preventing the exchange getting to a higher pitch; and he said that it must appear that his opinion was that the circulation of Bank paper in Ireland was in no shape the cause of the high exchange. He said that he clearly and decidedly considered the sole cause of the high rate of exchange to be that Ireland owed a great deal more money than she could pay. He considered the true criterion of such balance of debt to be the state of exchange between Dublin and London, and London and Dublin. That when the exchange was considerably above par, it was said to be against Ireland, and in that case certainly at that time Ireland owes more money than she is able to pay. Mr. Colville repeated these opinions several times: more often than it is necessary to quote. When pressed with the question whether the rates of exchange might be influenced by the value of the medium in which the balance of debts was paid, as, for instance, if it were paid in degraded or adulterated coin, he admitted that it might be so with respect to *coin*, but he denied that such views in any way applied to Bank of Ireland paper. Mr. D'Olier coincided with these views, and attributed the state of the exchanges to the same causes. When asked whether it was possible, in any case whatever, for there to be such an augmentation of inconvertible Bank paper as to diminish its value in exchange for goods, although the confidence that they might be paid off at some remote and indefinite period might be maintained, he said he thought it possible, but not probable. He said: "I have heard it stated that because gold is bought at a premium, that, therefore, Bank of Ireland notes are by so much depreciated, and at an absolute discount as to the amount of that premium. That was not the proper way to look at the question. The circulation said to be depreciated must first be proved to have become burdensome to the holders, and bargains to have been made by unnecessary purchasers to get rid of that which they found inconvenient, or were apprehensive to hold. The mere buying of gold at an advanced price beyond that of the Mint, is the effect, and not

the cause, of the exchange, and, therefore, no proof of the depreciation of the paper itself." As both these witnesses maintained that the exchanges might be depressed to any extent by the mere fact of debts being due by the country, it is much to be regretted that the Committee did not ask them if it were possible, in their opinion, for the exchange to be depressed beyond the limit of the expense of the transmission of bullion, and, if so, how it could be possible?

18. The description given by the witnesses of the state of the metallic currency was most astonishing. Mr. D'Olier had some of it weighed. The base currency took about 126s. to the pound weight; the Mint silver which was in circulation, was very scarce and very much worn, contained 94s. 6d. to the pound weight, whereas, when new from the Mint, it contained 62s. to the pound weight. Of the base shillings, the best did not contain more than 6d., and the worst about 3d. These base pieces were coined and sold privately to agents who had the means of circulating them, at 28s. to 35s. the guinea. When such was the state of the metallic currency in Dublin, the provinces in the south were even worse off. One witness stated that the silver currency had totally disappeared from the southern parts, that the vacuum was supplied by silver notes; that these silver notes had driven out the whole of the silver currency, and from their increased amount, as well as the increasing issues of private bankers' notes of every other description, prices had risen greatly. That the bad currency had been increasing most mischievously during the last twelve months, that there was still a very good supply of good silver in the south which was hoarded on account of these silver notes: but if they were suppressed, it would come into circulation again. He said all sorts of traders, as well as bankers, issued notes for 3s. 9½d. and 6s., payable at twenty-one days after date. He thought that the increase of the paper circulation augmented the state of exchange against Dublin. That the premium on guineas was a proof of the depreciation of the Bank notes; and that as the exchange rose the depreciation continued. That the premium on guineas was then 7 or 8 per cent. He himself had bought large quantities of guineas at a premium of 2s. 6d. each. In the north of Ireland, however, all bills were payable in gold; they would have nothing to do with any paper currency, and while the exchange on Dublin was 16 (7 two-thirds below par), the exchange on Belfast was 7 or 8 per cent. (one-third above par). He argued that, since the exchange in gold was favorable to Ireland, the real exchange must be in her favor, and that if any considerable quantity of gold came into circulation, it would at once tend to diminish the premium on guineas, and lower the rate of exchange. However, he thought that the

high state of the exchange was a clear proof that the balance of payments was against Ireland annually. While no Bank of Ireland or private Bank notes could be exchanged for guineas, except on paying a premium of 2s. 6d. each; Bank of England paper bore exactly the same premium as guineas, and were received in every transaction as equivalent to guineas. And yet the directors of the Bank of Ireland maintained that their notes were not depreciated!

19. In the north of Ireland, where nothing but gold was current, and paper was tabooed, the exchange at Belfast with London had always continued favourable to Belfast, and even while the exchange at Dublin was progressively sinking, the exchange at Belfast continued to rise; thus, the state of the exchanges during the years 1803 and 1804, when the Committee were appointed, was as follows:—

1803.		Dublin.		Belfast.
Average of 1st quarter	..	£11	1 9	£7 12 6
2nd	..	13	8 11	8 8 8
3rd	..	15	17 0	7 12 6
4th	..	15	8 7	5 12 6
1804.				
January 27th	..	18	0 0	6 0 0

There was, therefore, at that time, a difference of 12 per cent. between the exchange at Dublin and at Belfast. Consequently, if the opinions of the Directors of the Bank of Ireland were true, enormous payments were being made from Dublin to London, and a balance of payments was due from London to Belfast. However, Mr. Marshall, the Inspector-General of imports and exports, at Belfast, held a very different opinion with respect to Irish Bank notes, for he appends to the table of exchanges prepared by him this note:—

“It has certainly been heretofore held as a maxim of commerce, that the balance of trade has in a great measure regulated the rate of exchange; and, if specie was equally in circulation in England and Ireland as formerly, the criterion would, no doubt, still be tolerably just. *But the issue of paper in Ireland is so great as to make it subject to a heavy discount, whilst in England it circulates without any depreciation at all. I imagine the rate of exchange between the two countries, therefore, is very much influenced by the rate of discount on Irish Bank notes.*”

20. It is scarcely necessary to observe that if the opinion of the Directors of the Bank of Ireland were true, that the rate of exchange at Dublin on London was due entirely to the heavy debts due from Ireland to England, their townsmen must have

been great simpletons to purchase bills on London in Dublin at such an enormous sacrifice, when they could have got them at Belfast 10 to 12 per cent. cheaper. But it appeared that specie was at a premium of 10 or 12 per cent. in Dublin, so that the bills, when paid for in *cash*, were exactly the same rate in Dublin and Belfast.

21. In order to test the *fact* that the rate of exchange was due to the excess of payments owing by Ireland, the Committee had evidence on the subject, and it appeared most decisively that so far from the balance of payments being against Ireland, there was a very large balance in her favour. The witnesses differed as to the precise sum, but they agreed as to the fact of there being a large sum due to Ireland, and, consequently, that the exchange ought to be in her favour, *which was precisely the case at Belfast, where payments were made in specie*. With this incontrovertible evidence before them, the Committee did not hesitate to express their conviction that the real balance of pecuniary transactions were greatly in favour of Ireland, and that, consequently, the real exchange was and ought to be under par, and that they felt themselves compelled to seek in other causes than the balance of debts for the unfavourable exchange then existing between them.

22. We have already seen that when in 1696 the silver coinage was being recoined, a difference arose between Bank notes and specie of 20 per cent., and between tallies and specie of 40 per cent., it was universally said that Bank notes and tallies were at a discount of 20 and 40 per cent. There is no trace of any other language but that being applied to them. In the year 1804 Irish Bank notes were exchanged for specie at a difference of 10 per cent., so that, with a guinea in specie, any one might purchase a guinea note and 2s. or more in silver. The merchants of 1696 would have expressed such a state of things by saying that the note had fallen to a discount of 10 per cent. But at this period a new mode of expressing it was discovered; it was stoutly maintained that it was not the paper which was depreciated, but the guinea which had risen in value! Thus, one witness being asked, "Do you know that the Bank of Ireland paper is depreciated?" said, "I am not aware of it, because I should not say paper was depreciated, unless there was a forced issue of it, and that it was offered at a discount on all occasions. I should rather now say that gold is increased in value than the paper is depreciated." When asked, "What do you consider to be the best criterion of the depreciation of paper currency, an alteration of its value compared with the general property of any country, or its alteration compared with a given article, viz., guineas?" he says, "I think the first the best criterion,



because guineas may be wanted, as in the present case, for special purposes." It is somewhat surprising that the witness did not remember that Bank notes are a "promise to pay" guineas, and they are not a promise to pay another kind of property. When asked, "Do you not conceive that the fact of a premium existing on English Bank notes in Ireland and exchanged for Irish Bank notes, affords some indication that it is Irish paper which is depreciated, and not the price of gold which is locally raised?" "I do not." Other witnesses agreed in these opinions. When we consider the nature of an exchange, and the state of facts proved with regard to the Irish coinage, at that time, we might almost smile at these ideas, and attribute them to the peculiar methods of thinking which are sometimes prevalent on the western side of St. George's Channel; but we shall find that when a precisely similar state of things took place in England, with regard to the foreign Exchanges, the very same doctrines were long and stoutly asserted by a very numerous party in this country, and would probably be so again under similar circumstances.

23. There was one witness, however, who held very different opinions—Mr. Marshall, the Inspector General of Imports and Exports. He said that there were shops in the principal streets of Dublin for buying and selling guineas, and that the retail price of a guinea then was a paper guinea and 2s. 2d. He said that at the end of December 1803, the price of a bill in Dublin upon London for £100 British was £116 10s., if bought with Irish Bank notes, but if purchased with specie the price was only £106 10s. Irish. The same thing was observable in all domestic transactions. The man with a gold guinea in his pocket, going to market, had the advantage of the same premium over the man with the paper guinea, so he could go to a specie shop, and with his gold guinea buy a paper guinea and the premium; then he had a paper guinea of the same value as the other man, and the premium besides. Bank of England notes were exactly equivalent to guineas. From all these facts, it appeared that the Irish Bank note wanted 10 to 12 per cent. of the value of specie. It was contended that this was due to the rising in value of specie, and not to the depreciation of notes; but if specie had risen too much in value, or which was the same thing, if commodities had fallen so low as 10 or 12 per cent., such a state of things could not have continued for any length of time, because such a degree of cheapness would have attracted specie from Great Britain, where it had not risen. Moreover, Bank notes had been issued at par with specie, at its current value, whatever it was, and they ought to have risen *pari passu* with it, so as to be exchangeable with it, and, therefore, whatever they wanted of this exchangeable property must be considered as a

falling off from their original value, or a depreciation to that extent. And, therefore, he was clearly of opinion that the Irish paper currency was depreciated.

24. After shewing that the balance of payments, had been for a long series of years favorable to Ireland, but that the exchange had never ceased to be greatly depressed, he was asked—

“Do you also mean, on the whole of your evidence, to give it as your decided opinion, that there is and has been a depreciation in the paper currency in Ireland, and that the high rates of exchange, which have prevailed and still prevail, have arisen from the depreciation?”

“I do; the high exchange in Dublin which has now continued for some years, MUST, NO DOUBT, HAVE ARISEN, LIKE ALL OTHER PERMANENTLY HIGH EXCHANGES WHICH HAVE EVER EXISTED, FROM THE DEPRECIATED STATE OF THE CURRENCY WITH WHICH BILLS OF EXCHANGE ARE PURCHASED, and the same remedy might, perhaps, be resorted to with success in the present case, which has never failed to be effectual on all former occasions, namely, a removal of the depreciation.”

These are the ideas of the men of 1696; we shall find a long dreary period elapse before their truth was again generally recognised in this country. The amazing absurdity of supposing that the exchange could have fallen to 118, on account of the balance of payments alone, can be easily shewn. We cannot suppose that the cost of transmitting the specie from Dublin to London could have been more than £2 at most. Consequently, as £108 6s. 8d. was the par of exchange, if the rate of the exchange fell below £110 6s. 8d., it would have been cheaper to send the specie itself. Surely, the Irish would never have been so foolish as to pay £118 in Dublin to purchase a debt in London of £100, when they could place the cash itself on the spot for £110 6s. 8d.

25. The directors of the Bank of Ireland had admitted that before the Restriction Act they were obliged to regulate their issues of paper by the price of guineas and the exchange with London. Whenever they had an unusual demand for guineas, and the exchange was adverse, they had been obliged to diminish their issues to prevent the continuance of the demand for guineas. As soon, however, as they were released from paying in cash, they no longer thought themselves bound to follow the same rules, and we have seen how prodigiously they had extended their issues. They admitted, however, that it was a possible case, that their issues might be too great, and a new theory was now advanced which we shall be called on to discuss at some length in a future chapter, but we notice it now because this appears to have been the first occasion it was propounded by

mercantile men. Mr. Irving being asked if, in his opinion, Irish Bank notes were depreciated, said that he did not think so, although guineas were selling at a premium—

“Explain your reasons.”

“I am of opinion that a bank, managed with prudence, would only issue notes in proportion to the demand which may be made for those notes, in exchange for good and convertible securities, such as mercantile bills of exchange payable at specific periods of undoubted respectability, founded upon real mercantile transactions, upon Government securities such as exchequer bills, in the purchase of Spanish dollars, or other bullion; and the circumstances of the bank notes of Ireland being demanded for such good and convertible securities, I am of opinion, is a proof that they are not too large in amount, and that their value is not depreciated.”

We shall see afterwards that this theory was adopted by the directors of the Bank of England. It is one quite opposed to that by which the Irish directors acknowledged themselves obliged to follow whilst they were liable to pay their notes in gold. Hence, if it was correct, it inevitably followed that the issues of a bank should be governed on totally different principles under a convertible and an inconvertible paper currency.

26. After accumulating a considerable body of evidence upon the subject, and examining witnesses of all sorts of various opinions and various professions, the Committee reported that the real exchange was in favour of Ireland, and that the difference between the real and nominal exchange arose from the depreciation of the Irish paper. They pointed out the absurdity of supposing that the value of gold had risen, and not that the paper was depreciated. They said that the difference between the rate of exchange could never vary more than the cost of transmitting specie from one to the other, and that any excess above that could only arise from other causes. They then noticed the enormous increase of the paper currency that had taken place, since the only check against over-issue was removed, namely, convertibility into gold at the will of the holder—the great quantity of base and counterfeit coin fabricated and forced into circulation—and shewed that, under an unfavourable state of the exchange, the paper currency had always been diminished. “If prudence had not dictated such a course, necessity would have compelled a diminution of issues, by diminishing the stock of specie which could only be replaced at a loss proportionate to the existing rise of exchange, and your Committee observe that, in fact as well as in theory, the result of such practice always was and must be the redress of the unfavourable exchange. Since the Restriction Act, however, the directors had acted exactly upon the opposite principle,

when the exchange was unfavourable, they had greatly increased their issues. Excessive issues of paper produce a proportionate rise in the rates of the exchange, for these are obviously influenced by the value of the medium in which the payments are made, and the *quantity* of that medium necessary to effect a given payment must be increased as the value of the medium diminishes, no matter whether the payments be made in a degraded and adulterated coin, or in a depreciated paper. If paper by depreciation comes to represent a less quantity of money than it professes to do, it must make the exchange which it is to pay appear unfavorable, in the same manner as coin in which it were to be paid would have done, if by degradation it should cease to contain the same portion of gold which it used to do; and the removal of the degradation in the one case, and of the depreciation in the other, would have the same effect in bringing the exchange to par, or whatever might be its real state."

27. After recommending several minor remedies, the committee said: "But all the benefits proposed by this mode of remedies would be of little avail, and of very limited duration, if it did not promise at the same time to cure the depreciation of paper in Ireland, by diminishing its over-issue. \* \* \* And your Committee do, in express terms, declare their clear opinion, that it is incumbent on the directors of the Bank of Ireland, and their indispensable duty, to limit their paper at all times of an unfavourable exchange, during the continuance of the restriction, exactly on the same principle, as they would and must have done, in case the restriction did not exist, and that all the evils of a high and fluctuating exchange must be imputable to them if they fail to do so."

28. They then noticed the miserable state of the silver coinage, or rather the base metal, and notes and I. O. U.'s substituted in its place, which they said was clearly to be traced to the unfavourable exchange. As long as the exchange continued in that unfavourable state, all the genuine silver coin transferred itself to England, and the place of the genuine silver coin was supplied by these small silver notes in the country districts, and in Dublin, were they were not issuable, by an extremely base silver coinage which was privately fabricated in great quantities, all of which evils could only be cured by the restoration of the exchanges to their true state, and the issue of a genuine silver coinage.

29. The Committee contented themselves with declaring, in the most emphatic terms, that the Bank of Ireland ought to regulate its issues by the state of the exchanges, but it did not



discuss the new theory propounded, that the paper currency should be regulated by the mercantile bills of exchange offered for discount. No one who has paid any attention to the principles of the subject, and carefully considered the facts produced before the Committee, can fail to acquiesce in their judgment, and we cannot fail to remark that none of the professional witnesses, *i. e.*, the directors of the Bank of Ireland, or the other Bankers examined, had attained the smallest glimpse of the principles which governed their own business, and by which they should have directed their policy. Its true principles were clearly seen and announced solely by the extra-professional witnesses, and laid down by the statesmen who formed the Committee. We may suppose that fear of giving offence to their customers, and so diminishing their business and profits, may have somewhat dimmed their perception.

30. As it was evident that as long as the different currencies between the countries continued, there must be an exchange from the want of a common medium of payment, the Committee strongly recommended that the moneys of circulation and account should be assimilated, and that Bank of Ireland notes should be payable in Bank of England paper, and that the Bank of Ireland should establish a fund at their credit in London for that purpose, and that all bills should be payable at a fixed date, which measures had been found to reduce the Scotch exchanges to par, and maintain them so ever since the year 1763, through all the political and commercial convulsions of the period.

31. The presentation of this report does not seem to have excited any discussion in the Houses till many years afterwards. In 1809 Mr. Parnell moved that the currencies of England and Ireland should be assimilated in accordance with the recommendation of the Committee, which was rejected without a division. The Report does not seem to have been printed for public circulation till 1826; but it was probably communicated to the Bank, and produced some effect upon their policy. A fact was stated by Mr. Foster in the House that in the months of May, June, and July 1804, the directors diminished their issues from three to two millions and a half, and the exchange rose; in August they increased them again, and the exchange fell. The Chancellor of the Exchequer (Addington) declared that it was a perversion of terms to infer that the depreciation of paper had any real effect on the exchange. The excessive issue of paper might produce a depreciation, but each country had a different circulating medium, and the depreciation of either could only have a nominal effect on the course of exchange. Mr. Addington wholly overlooked the fact that payments were made in Bank of Ireland paper, and the course of exchange referred to that

paper. If payments had been made in silver coin of full weight, then it would have been true that the exchange would not have been disturbed by the depreciation of the paper. But the course of exchange always relates to the medium in which the payment is actually made, and a depreciation of that medium necessarily causes an adverse state, in whatever state the other parts of the currency may be which are not the medium of payment. Of this we have seen a conspicuous instance in 1696, when the restoration of the silver coinage immediately rectified the exchange, although Bank paper continued to be depreciated long afterwards. Mr. Fox, with premature exultation, said that he was glad to hear that the Chancellor of the Exchequer allowed that an excessive issue caused a depreciation, and that the House was never again to hear *the fantastical opinion that the paper was not depreciated, but the value of gold raised*. Had Mr. Fox been able to look forward only six years he would have found that this fantastical opinion not only re-appeared, but was maintained with more stubbornness and pertinacity than ever.

32. Such was the occasion of the first declaration by a Parliamentary Committee, of the principle that the issues of the Bank should be regulated by the foreign exchanges; a Committee, comprehending almost all the great names of the different parties of all opinions. As it was not then the custom to publish the lists of the divisions in committees, we are not able to say whether they were unanimous on the subject; but, from the exceedingly strong and decisive language of the Report we may fairly infer that the opinion of the Committee was equally strong and decided, and that if any minority differed from the resolutions of the majority, it must have been a very small one.

33. We have not much to detain us in the few following years. In 1804 the scarcity of the silver coinage was so severely felt, that the Bank issued 5s. dollars to supply the want, of which 1,419,481 were put into circulation. In 1806 the loan of three millions, which was the consideration for the renewal of the Charter in 1800, became due; but the Bank was persuaded to renew it at 3 per cent. per annum until six months after the ratification of peace. In 1807 a Committee was appointed to inquire into the various branches of the public expenditure, and, amongst others, into the payments made into the Bank of England. In the second report are some interesting details respecting the connection between the Bank and the Government.

34. At this period political circumstances occurred, which led to a great derangement of the British currency, and of which we may be allowed to give a short summary:—"For ten years (before 1805) Prussia had flattered herself that, by keeping

aloof, she would avoid the storm, that she would succeed in turning the desperate strife between France and Austria to her own benefit, by enlarging her territory and augmenting her consideration in the North of Germany, and, hitherto, success had in a surprising manner attended her steps. At once all her prospect vanished, and it became apparent, even to her own Ministers, that this vacillating policy was ultimately to be as dangerous as it had already been discreditable." The state of universal contempt into which Prussia had fallen, precisely similar to that which she did in the Crimean war from an analogous course of conduct, was at last too strong even for her, and just then the Emperor Alexander arrived at Berlin, and, by his influence, a secret treaty was signed on the 3rd November by the two States, to curb the ascendancy of France in Europe. Prussia bound herself, in the event of Napoleon not agreeing to certain conditions to be offered him, to declare war against him on the 15th December, and the King bound himself by the most solemn oaths to adhere to his engagements. After considerable delay, the Prussian Minister started for the headquarters of the French Emperor on the 28th. Napoleon, who was then manœuvring in preparation for the Battle of Austerlitz, but who was perfectly aware of the nature of Haugwitz's mission, put off receiving him for a short time, and sent him to Vienna. On the 2nd December, Napoleon destroyed the Russian and Austrian armies in the great Battle of Austerlitz, before the eyes of their respective sovereigns, and the Prussian Minister immediately rushed off to congratulate Napoleon on his successes! and to propose to him a treaty of Alliance by which Prussia was to seize all the continental dominions which belonged to her ally the King of England. This treaty was signed with Napoleon on the 15th December, the very day on which Prussia had agreed to declare war against him. In the following March, Prussia, under the compulsion of Napoleon, issued a decree prohibiting British merchandize from entering any port in the Prussian dominions, thus cutting off a principal source of the supply of corn to Great Britain.

35. Swift and sure was the retribution that fell upon Prussia for her matchless meanness and perfidy in 1805. Napoleon was perfectly informed of the object of Haugwitz's mission to him. "You have come," said he, "to present your master's compliments on a victory, but fortune has changed the address of the letter;" and, though he was too anxious to forward a measure which would consign her to public infamy, and embroil her with Great Britain, he did not, nevertheless, for one instant from that time, pause in his determination to destroy her at the first opportunity. "From the moment the treaty was signed, Napoleon did more than hate Prussia, he conceived

for that power the most profound contempt." He proceeded to treat her with the most unmeasured arrogance, and, after a series of aggravated insults, that perfidious power was astonished to discover that Napoleon was secretly treating with Great Britain for the restitution of Hanover to its lawful sovereign. Negotiations for peace had been going on for some considerable time between France, England, and Russia, which led to nothing. The popular ferment in Prussia had been increasing for a long time from her disgraceful position becoming more notorious and galling every day, and the Government, with a rashness, violence, and imprudence, only to be surpassed by its perfidy, sent a haughty summons to Napoleon to evacuate Germany. This insane insult reached Paris on the 1st October, when Napoleon was already far on his way to Berlin, and on the 14th, Prussia met her well deserved doom at the twin battles of Jena and Auerstadt. Napoleon visited the tomb of Frederick the Great, on the anniversary of the day on which, on the same spot, the King of Prussia had bound himself by solemn oath to the Emperor Alexander.

36. Soon after Napoleon arrived at Berlin, he issued the Berlin decree against British commerce, on the 21st November. This decree was soon afterwards met by a retaliatory order in Council on the part of Great Britain, and during the course of 1807 a series of decrees were issued both by England and France, each endeavouring to outdo the other in violence, ferocity, absurdity, and illegality, the result of which was, however, to exclude the British flag from every part of Europe, except Sweden. This state of hostility, the avowed object of which was the destruction of British commerce, led to a short supply, and an apprehended scarcity of every article of European production required as raw materials for our manufactures. The natural consequence was a boundless spirit of speculation in these articles; and, under the influence of this speculation, the prices of all the products of Russia, and the East of Europe, rose to double and triple the ordinary figure. At the same period Spain was occupied by the French, and similar speculations tripled and quadrupled the price of Spanish wool. France, too, was supreme in Italy; and the produce of that country, chiefly consisting in silk, rose in a similar proportion. Nor had our own conduct been less ruinous in other respects. The vindictive nature of the orders in Council had proved so destructive to the rights of neutrals, that a rupture with America was imminent, which produced an equally speculative rise in the prices of American products, such as tobacco and cotton.

37. Speculation in these productions was favored by an expected narrowing of the sources of supply; circumstances of



an opposite nature came to excite still further perturbations in the usual course of trade. The entry of the French into Spain and Portugal had paralysed their power over their colonies, and the Great South American continent became from this time virtually independent. It had been hitherto rigidly closed against British commerce. On the 13th November, 1807, Napoleon published a decree in the *Moniteur*, deposing the House of Braganza from the throne of Portugal, and Junot took possession of Lisbon, and the Royal Family immediately embarked for the Brazils. These events opened up the whole of the South American trade to the British, and the speculation of the merchants swelled in a proportion commensurate to the vastness of the markets that were thrown open to them. A complete phrenzy of speculation seized upon the nation. It spread from commerce to joint stock companies. The infatuation of 1720 was reproduced. Joint stock companies of all descriptions, for canals, bridges, insurances, breweries, and multitudes of others, started up like mushrooms. At the same time, the Bank of England fanned the flame of speculation to an extent far beyond the bounds of ordinary rashness. It is stated by Sir Francis Baring, in his evidence before the Bullion Committee, that since the restriction he knew of many instances of clerks not worth £100, who had started as merchants, and had been allowed to have discount accounts of from £5,000 to £10,000, which demand, he said, was caused by the Bank, and not by the regular demands of trade, and which could not exist if the restriction were removed. The paper discounted by the Bank, which had been £2,946,500 in 1795, rose to £15,475,700 in 1809, and to £20,070,600 in 1810.

38. Along with this extravagant speculation, partly caused by it, and partly fanning it, a multitude of country banks started up in all directions, and inundated the country with their notes, exactly as had happened before 1793. In the year, 1797, they had been reduced to 270; in 1808, they had increased to 600; and in 1810, when the Bullion Committee were appointed, they amounted to 721, and the quantity of paper they had put into circulation was supposed to amount to £30,000,000. At the same time, the Bank of England had increased its issues to £21,000,000, a quantity declared by some of the most eminent witnesses, far to exceed the legitimate wants of the country.

39. Concurrently with these extravagant speculations and issues of notes, the price of gold bullion rose rapidly, and the foreign exchanges fell with equal rapidity, exactly the same symptoms as had been manifested in Ireland in 1804. The following figures, taken at intervals, are sufficient to shew the

rapid rise of the price of bullion and the fall in the foreign exchange:—

	Price of Standard Gold				Price of Silver.			Exchange with Hamburg.	
		£	s.	d.		s.	d.	s.	d.
Jan. 1805	...	4	0	0	...	5	4	...	35 6
Oct. 1805	...	4	0	0	...	5	5	...	33 9
July 1808	...	no quotation			...	5	3	...	34 9
Feb. 1809	...	4	10	0	...	5	3	...	31 0
May 1809	...	4	11	0	...	5	5	...	29 6
Jan. 1810	...	no quotation			...	5	7	...	28 6

40. Under these circumstances, Mr. Horner, on the 1st February, 1810, moved for several accounts relating to currency and exchanges. Mr. Baring stated that guineas then brought 26s. or 27s. The Bullion Committee were then appointed.

41. Before proceeding to analyse this famous Report and the evidence produced before it, we may observe that what has so frequently happened when two or more persons or occurrences have contributed to any result, if one of these persons or occurrences has been much more prominent than the rest, the others come, in course of time, to be forgotten, and the whole merit or blame is attributed to the one which has attracted most public attention. So it has been in this case. The Bullion Report of 1810 has, from various circumstances, attracted so much public attention to itself, as to have thrown completely into the shade the Report on the Irish Currency of 1804; and that Report seems to have been soon forgotten, that the directors of the Bank of England in 1810 had little or no knowledge of it. The circumstances, however, of the derangement of the Irish currency, upon which the Committee of 1804 sat, were precisely identical with those of the English currency in 1810, which caused the appointment of the English Committee. The same sets of opinions were delivered and adhered to stontly by the professional witnesses in both cases, and the Report of the Committee in each case was precisely identical; in each case they condemned the doctrines and policy of the Bank directors in the most emphatic manner. The Report of the Committee of 1810 is written in a more methodical and scientific form, and is superior as a literary performance, but the principles adopted and enforced in it are absolutely identical with those of the Committee of 1804.

42. It may be interesting to compare the composition of the two Committees, who at different times came to similar conclusions as to the principles that should govern the Bank in its

issues during the restriction of cash payments. The Committee of 1810 consisted of Mr. Horner, Mr. Spencer Perceval, Mr. Tierney, Earl Temple, Mr. Brand, Mr. Parnell, Mr. Mogens, Mr. Johnstone, Mr. Giddy, Mr. Dickinson, Mr. Thornton, Mr. Sheridan, Mr. Baring, Mr. Manning, Mr. Sharpe, Mr. Grenfell, Mr. Foster, Mr. Thompson, Mr. Irving, Mr. Huskisson, Mr. Abercrombie. On comparing this list with that of the Committee of 1804, it will be seen that there were only two members, Mr. Sheridan and Mr. Foster, who were on both Committees.

43. The witnesses examined before both Committees consisted of the same varieties. 1. Bank directors. 2. Private bankers. 3. General merchants. 4. Independent witnesses. On reading over the evidence by these respective sets of witnesses, we find that the opinions given by the English Bank directors and merchants were precisely similar to those of the Irish Bank directors. The directors of both Banks vehemently repudiated the idea that the Bank paper was depreciated; they equally maintained that it was the price of specie that had *risen*; they both admitted that, while they were liable to pay their notes in specie, they were obliged to regulate their issues by the foreign exchanges and the price of bullion; they both admitted that since the restriction they had paid no regard to their former rules, and they denied the necessity of so doing. They both denied that the issues of their notes had any effect upon the exchanges, or were in any way the cause of the high adverse exchange, and they both denied that a limitation of their issues would have the slightest effect in reducing the exchange to par. They both maintained that there could be no over-issue of their notes so long as they were confined to the discount of paper of undoubted solidity founded upon real transactions.

44. Nothing can be more remarkable than the perfect identity in sentiment in every point of opinion and policy, between these two sets of directors, but we must remark a circumstance that will detract considerably from the weight of their opinion, namely, that they were all *interested* witnesses. In the first place, since the restriction upon paying in specie, and so being relieved of fulfilling their obligations, they had extended their discounts enormously, and their profits upon their extended issues had been proportionate, the dividends to the proprietors had greatly increased; and secondly, they were in the position of semi-defendants; their policy was certainly impugned; the Committee was a species of court of inquiry into their conduct, and it certainly was not likely that they would admit that the principles they were acting upon could be wrong, when they were so very lucrative to the proprietors of the Bank. The

same objection of interested testimony equally applies to that of the merchants, for they were interested in obtaining as large an amount of accommodation from the Bank as possible, and a restriction of its issues would have curtailed their operations, speculative or otherwise; consequently their interests were better served by the doctrines and policy of the Bank directors. Both Committees, however, examined witnesses of an independent position, who had no interest one way or the other, and in each case they totally disagreed from the opinions of the Bank directors, and condemned their policy. And in both cases the Committee, having examined all those witnesses of different shades and opposite opinions, presented reports strongly condemning the opinions and practice of the directors of each bank, and called upon them to alter their policy: the report, in the Irish case, in language of great severity, that in the English case equally strong in fact, though milder in expression.

45. As this division of opinion on these financial questions seems to be as permanent and deep-seated as the divisions on political questions, it may be of advantage to state shortly and precisely the points upon which the respective parties were at issue. The facts, of course, were easily ascertained and agreed upon. They were as follows:—

1. That the Mint price of gold bullion, or the legal standard of the coin, was £3 17s. 10½d. per oz.
2. That the market price of gold bullion was then £4 10s. per oz.
3. That the foreign exchanges had fallen to an enormous extent; that with Hamburg, 9 per cent.—that with Paris, 14 per cent.
4. That the increase of bank notes had been very great during the last few years, and was rapidly augmenting.
5. That specie had disappeared from circulation.

46. Upon this acknowledged state of facts, the opposite issues maintained by the two parties, were as follows:—

The one party maintained—

- I. (a) That the Bank notes were depreciated.
- (b) That the difference between the market price and the Mint price of gold bullion, was the measure of the depreciation.
- II. (a) That the extreme limit to which the foreign exchanges could, by the nature of things fall, in any case, was defined, and easily ascertained, and consisted of the expense of freight, insurance, and some other minute causes.
- (b) That, in the then state of the exchanges, there was a very large excess of depression over and above that

limit, which was not attributable to any of these causes.

- (c) That this residual depression of the foreign exchanges, and the rise of the market price above the Mint price, was caused by the excessive issues of Bank notes in circulation.
- III. That a diminution in the quantity of Bank notes would increase the value of the domestic currency—would cause the foreign exchanges to rise to par—and the market price of gold to fall to the Mint price.
- IV. That the Directors of the Bank of England ought to follow the same rules in the extent of their issues during the restriction of cash payments, as they were obliged to do before, viz., by regulating them by the foreign exchanges. When the exchanges were favourable, and bullion flowing in, they might enlarge them; when the exchanges were adverse, they must contract them.

47. In opposition to these principles, the other party maintained—

- I. (a) That it was not the Bank notes that were depreciated, but the price of specie that had risen.
- (b) That there was no difference between the price of bullion, whether paid in notes or specie.
- II. That the depression of the foreign exchanges was in no way whatever attributable to the depreciation of the currency, but was entirely caused by the adverse balance of payments to be made by Great Britain, the remittances to the army, the continental measures of Napoleon, and other political measures.
- III. That no diminution or increase of the issues by the Bank would have any effect whatever upon the foreign exchanges, either in raising or depressing them, or on the market price of bullion.
- IV. That since the restriction, there was no necessity for observing the same rules in issuing their notes by discounts as before, *i. e.*, by observing the course of the foreign exchanges, but that the public demand was the sole criterion, and so long as they adhered to these rules, there could be no over-issue.

48. With respect to the first point at issue between the two parties, after the very full explanation of the principles involved in it, given in a previous chapter, we need say very little about it here, as, according to what has already been said, it is quite clear that it certainly was a very fantastic opinion to suppose



that gold could rise in comparison to a "promise to pay gold." There was one circumstance, however, different in the cases of England and Ireland. In the latter country, the Bank notes were openly at a discount; there were two prices in every transaction, a money price, and a paper price: and there were specie shops where guineas were openly sold for Bank notes and several shillings over. In England this was not the case, partly because Bank of England notes were received at their full nominal value in payment of taxes, but chiefly because it was an indictable offence to sell guineas for more than 21s. Shortly before the Bullion Committee was appointed, a man named De Yonge was tried and convicted for the crime of selling guineas for more than 21s. This law only applied to heavy guineas. Light guineas, below 5 dwts. 8 grns. might be sold, and were usually sold, for a Bank note and 6s. or 7s. Considering, therefore, that by law it was a crime to sell guineas of full weight at their market price, it is clear that the value of guineas was not an open question—they were forcibly depreciated by law, and, consequently, this is no argument for the equality in value between the paper and the coin. If it had not been a criminal offence, there would have been two prices for every thing, a money price and a paper price.

Mr. Merle was asked—

"What is the difference between the Mint price and the market price of gold per cent?"

"About fifteen or sixteen."

"When you buy gold, you pay for it in Bank paper?"

"Yes."

"The payment being made in Bank paper, the price is £4 10s. per ounce?"

"What I have sold for the home trade I had only £4 8s. for."

"If you were to pay in guineas, should you get the gold at a cheaper rate?"

"I could not pay in guineas, I cannot get them."

"Supposing you had guineas to give, could not you buy that gold at a cheaper rate than £4 10s. an ounce?"

"No, I should not offer a less price, certainly; if I was to buy any quantity of gold and pay for it in guineas, I should offer the same price as in Bank paper."

"When you speak of the Mint price being £3 17s. 10½d. an ounce, do you calculate that in gold coin or in Bank paper?"

"We make no difference; and I do not believe there has been any difference in paying in specie or Bank paper."

"Is not the reason why an ounce of gold is worth £3 17s. 10½d. that as many guineas as weigh an ounce amount to that sum?"

"Yes, if a gentleman came and brought me gold, I should pay him exactly the same, whether I paid him in gold coin or in Bank notes."

"The Mint price of gold is the price calculated in gold coin?"

"Yes."

"And the market price of gold at present is calculated by paper?"

"Yes, it is all paid in paper."

Thus, we see that nobody bought gold bullion at the market price in gold coin, but only in Bank paper.

49. Among the other witnesses who held the opinion that the Bank paper was undepreciated, we may cite that of Mr. Chambers, an eminent merchant, which condenses the whole subject into a single point:—

"Have you ever had occasion to consider the effects of an excessive or forced paper currency in any country, upon its foreign exchanges with other countries?"

"In a small degree, I have."

"What do you conceive the effect of such excess to be upon the foreign exchanges?"

"I apprehend the effect on the exchange would follow the depreciation of a forced currency."

"What do you say to an excessive currency, though not forced?"

"I do not conceive the thing possible."

"What do you mean by a forced paper currency?"

"A paper which I am obliged to take against my will, for more than its value; it is not forced so long as people take it willingly, which they will naturally do whilst undepreciated."

"May not the quantity of metallic currency be increased in proportion to payments which it has to effect, by an increased issue from the mines; and will not that have the effect of raising the money prices of all commodities?"

"I conceive an increase or abundance of silver or gold would have the same effect upon those precious metals, as a glut of any other commodity upon the market."

"And, in the same matter, may not that paper currency which continues to preserve its credit unimpeached, and which commercial people are perfectly willing to receive, be so augmented in quantity as to raise the local prices of commodities?"

"I do not conceive that that piece of paper, for which I am obliged to give a valuable article of merchandise, can be increased beyond the want of it; nobody will give a valuable article for a piece of paper that does not want it."

"Have you ever happened to pay any attention to the history of the paper currency of Scotland between 30 and 40 years ago, or to that of Ireland about the year 1804?"

"Some years ago I remember reading something about them, but the recollection is rather faint upon my mind."

"Do you call that paper, in your sense of the word forced, a

forced paper currency, which either by law as it stands, or by the force of public opinion, is not convertible into specie at the option of the holder?"

"If it be convertible into other objects of my gratification without depreciation I do not consider it forced."

"At the Mint price of standard gold in this country how much gold does a Bank of England note for £1 represent?"

"Five dwts. three grns."

"At the present market price of standard gold, of £4 12s. per ounce, how much gold do you get for a Bank of England note for £1."

"Four dwts. 8 grns."

"Do you consider that a Bank of England note for £1, under these present circumstances, is exchangeable in gold for what it represents in that metal?"

"I do not conceive gold to be a fairer standard for Bank of England notes than indigo or broadcloth."

*(Question repeated.)*

"If it represents twenty shillings of that metal at the coinage price, it is not."

\* \* \* \* \*

"Will you state to the Committee, in your opinion, to what cause is referable the present unfavourable state of exchange, between England and the continent?"

"To the balance of payments being against this country."

"Can you give cases to illustrate the fact that you have assigned of the balance of payments being against this country?"

"Large British armies upon the continent; slow returns for exports; quick payments for imports; and very large stocks of imported goods now on hand in the country."

"Is there any other cause to which you attribute the present state of exchange?"

"I know of none other that can affect it, excepting that of a forced depreciated paper."

"Is it your opinion that the currency of England is depreciated?"

"Certainly not."

50. Upon this, Mr. Huskisson remarks:—"In these answers this leading doctrine is manfully and ingeniously asserted, and maintained; and all who stand up for the undepreciated value of Bank paper, however disguised their language, must ultimately come to the same issue." It was, in fact, as the same writer just before states, these persons had persuaded themselves and endeavoured to persuade others that Bank paper is the real and fixed measure of all commodities, and that gold is only one of the articles, of which in common with others, the value is to be ascertained by a reference to this invariable standard and universal equivalent, Bank paper.



51. It is certainly amazing to think how persons of ordinary intelligence, could seriously make such answers as Mr. Chambers did, and that these views pervaded the whole of the mercantile evidence adduced, the reply to which is so obvious. A Bank note was a promise to pay a certain specified weight of *gold* of standard fineness, and it did not profess to represent any amount of indigo or broadcloth whatever. A £1 Bank note professed to represent 5 dwts. 3 grns. of standard gold and nothing else, and if it was only really equivalent to 4 dwts. 8 grns., those who maintain that it was not depreciated must also assert that 4 dwts. 8 grns. is the same thing as 5 dwts. 3 grns. There is no escape from this conclusion. Those who maintained that a £1 Bank note, which was a promise to pay 5 dwts. 3 grns. of gold was still a "pound" when it was only worth 4 dwts. 8 grns., ought also to have maintained that if the fifth part were to leak out of a pint bottle of wine, it was still a "pint of wine" because it was contained in a pint bottle. In each case, the "promise to pay," and the "pint bottle," were only the outward sign of what the contents ought to be; in either case, it was the quantity of the substance, either of gold or wine, they actually did contain, that was their true value.

52. Those who maintained that the Bank note was not depreciated should also have maintained that the worn, the clipped, and degraded coin of William III. was not depreciated, when 6s. 3d. and 7s. only contained as much silver as 5s. 2d. ought to have done by law; so that 5s. 2d. was only equal in reality to 4s. 1d. of the legal standard currency.

53. It must be admitted, however, that there was one argument to show that there was no difference in transactions between specie and paper, for specie had totally disappeared from circulation, it had no existence. The Bank paper and tokens were the sole circulating medium of the country. When people found that they could get no more for their good golden guineas, than for the depreciated Bank paper, they hoarded them; they either retained them locked up, or melted them down for exportation, the temptation to perjury being exactly 12s. per ounce. The explanation of these phenomena is very simple. When Bank notes were declared inconvertible, they took rank as a new substantive currency (being merely representative before), exactly like silver. Now, the relative value of gold and silver purely depended upon their relative quantities, and when their relative values were fixed by law, if the legal value did not correspond to the market value, we have seen over and over again that the metal which was *undervalued* was driven out of circulation. So, also, when heavy and light coins circulated together, the heavy coins were driven out of circulation because the heavy

coins were undervalued, and nobody would give 6 ounces of silver for what they might buy with 5 ounces. It was exactly the same with Bank notes. They could only preserve their relative value with gold, by preserving certain relative proportions in their quantity; as soon as this quantity was exceeded, their relative value fell, and as their relative value to guineas was fixed by law, a change in their market value was followed by exactly the same consequences as a difference between the market and legal value of gold and silver. The guineas which were undervalued were driven out of circulation, as always has been done under similar circumstances, and as always will be done to the end of time. Nobody would give 5 dwts. 8 grns. of gold for what they could get for 4 dwts. 8 grns. Thus this iniquitous and ignorant law to force down the value of guineas, brought its own punishment with it: it destroyed their existence as a circulating medium; but then it became literally true that there was no difference between specie and paper; the power of making an invidious distinction between notes and gold was effectually cured,—*solitudinem faciunt, pacem appellant*; when the inhabitants were massacred, the Russians proclaimed "*l'ordre regne à Varsovie*."

54. With respect to the second issue joined between these parties, the principal places with which London had established exchanges were Amsterdam, Hamburg, and Paris, in all of which the currency was metallic. The Committee examined witnesses, who proved that the whole expenses of freight, insurance, war risk, and every other charge, varied from about 4 to 5½ per cent., but beyond these there was a depression of 12 to 14 per cent., totally unaccountable for by any of these causes. If it were true that this difference arose from a demand for gold on the continent, it is quite evident, that gold should equally have risen in the continental markets; but those who alleged this cause should have been prepared with a proof of their assertions, which, however, they were totally unable to produce. On the contrary, it was proved that there was no alteration in the Mint price of gold in foreign places, and that the market prices had experienced no rise at all in proportion to the rise in England.

55. While the English merchants so strenuously maintained that the rate of exchange was entirely due to the balance of payments being against England, and that the Bank paper was not depreciated, it may be as well to compare the opinions of a foreign merchant who looked at the same circumstances from a different point of view. After stating the difficulty of ascertaining the exact par of exchange between London and Hamburg, from the fact of one currency being silver and the other gold,

he considered that the rate of exchange might be considered as 15 per cent. against England.

"Has not a large quantity of circulating specie a powerful tendency to steady the course of exchange?"

"Yes, certainly, when its importation and exportation is not prohibited, and as forming the only basis that regulated the par of exchange."

"Is not, then, any country whose chief circulation is in paper, likely to experience great fluctuations in the course of exchange with other nations?"

"When that paper is not convertible into cash, it only represents, in my opinion, an ideal and not a real value, subject to public opinion, and, consequently, liable to the very great fluctuations which public opinions are subject to."

"Is there not an agio (or premium) at Hamburg, for banco above the current money?"

"Not according to my ideas; but, on the contrary; it is the *different current coins that bear an inferior value* to the Bank money, and which vary daily, every thing there being valued according to Bank money, or a certain weight of fine silver."

"What is the extent to which you conceive that the exchange is capable of falling in any country in Europe at the present time, supposing it to be computed in coin of a definite value, or in something convertible into a definite quantity of gold or silver bullion?"

"The charge of transporting it, together with an adequate profit in proportion to the risk the transmitting such specie is liable to, would be the extent of the fluctuation."

The witness stated that the whole of these causes put together might amount to  $5\frac{1}{2}$  or 6 per cent.

"Do you not then conceive that such a fall of our exchange as has exceeded the sum necessary to compensate for the expense of transporting gold or silver, in the last 15 months, must be referred to the circumstance of the existence of a paper currency not convertible into specie?"

"Yes, certainly."

"Do you conceive, then, that out of the 15 or 20 per cent. which the English exchange has fallen in the last 15 months, the large portion of from 10 to 12, or 13 per cent. may be referable to the circumstance of our paper currency not being convertible to cash?"

"I am clearly of that opinion."

"Do you then consider our paper as depreciated 10 to 13 per cent. in consequence of its non-convertibility into cash?"

"As I value everything by bullion, I conceive the paper currency of this country to be depreciated to the full extent of the 15 or 20 per cent., or rather the difference in this country be-

tween the price of bullion and the rate by which the coin is issued from the Mint."

"Do you conceive the balance of trade with the continent of Europe to be now for or against this country?"

"I conceive it to be considerably in favour of this country, though not to the extent as generally stated in figures; those figures, representing, in my mind, only about 80 per cent. of their nominal value."

56. With respect to the third issue between the parties, nothing can be clearer than that a diminution in the quantity of paper in circulation must have enhanced its value relatively to all other commodities, including gold; and as the market price of gold was determined solely with reference to the price paid for it in Bank paper, and not in guineas, it is evident that a reduction of the quantity of paper must have reduced the price of gold when expressed in paper, and brought the real value of the note nearer to its nominal value; and, by thus raising the value of the whole currency, it must necessarily have raised the foreign exchanges to par, if the diminution was carried to a sufficient extent, and so would have brought gold back again into circulation.

57. The fourth issue between these parties contains a perfectly new theory of the paper currency, which had previously been announced by the directors of the Bank of Ireland. As this may be considered as one of the most famous theories of currency, we think it will be advantageous to defer the discussion of it till the chapter in which we shall consider several theories of the subject together. It is sufficient to say here that the Bullion Report especially condemned it.

58. The above may be considered as the chief points agitated before the Committee, which are material to our subject. We may now give a short abstract of the arguments and recommendations of the Report. It begins by stating the existing difference between the market and the Mint price of gold. The former being about £4 10s., being  $15\frac{1}{2}$  per cent. above the latter. The same difference prevailed in the price of silver. The foreign exchanges had also begun to be extremely unfavorable to England in 1808, and had become more so during 1809, at that time the exchange with Hamburg was 9 per cent. below par, with Amsterdam 7 per cent. below par, and with Paris 14 per cent. below par. So extraordinary a rise in the market price of gold above the Mint price, coupled with the extraordinary depression of the foreign exchanges, had early convinced the committee that the cause of them was to be found in the state of our domestic currency. But upon both these points they had been anxious to collect the opinions of merchants.

59. Most of the witnesses attributed the high price of gold entirely to an alleged scarcity, arising from the unusual continental demand for it, but it was proved that at Hamburg during the preceding year, when the price rose so high in this country, the fluctuations had never exceeded 3 or 4 per cent. At Hamburg the price of gold was expressed in *silver* like any other commodity, and the Committee considered the change in the market and Mint price of gold at Hamburg and Amsterdam in the last few years, to shew that a change had taken place in the relative value of the two metals all over the world. Silver having fallen in its relative value to gold all over the world, gold has appeared to rise in price in those markets where silver is the legal measure, and silver to fall in those markets where gold is the legal measure.

60. With respect to the demand on the continent causing the rise in the market price, the same effect ought to have been observed in former wars if that had been the case. But it had not been so during the seven years' war, and in the American war there had been no want of bullion in the country. The two most remarkable times when the market price had exceeded the Mint price, were in King William's reign, when the silver coin was very much below the standard, and in the beginning of George III.'s reign, when the gold coin was in a very degraded state. In both cases the reformation of the coinage had effectually lowered the market to the Mint price, and since 1773, when the gold coinage was reformed, till 1797, the market price had never materially risen above the Mint price; even in 1796 and 1797, when there was such a scarcity of gold, on account of the demand of country bankers to meet the run upon them. The Committee, moreover, totally disbelieved the fact of the alleged scarcity of gold, as witnesses had proved that there was no difficulty at all in getting any quantity of it, by those who choose to pay the price of it, and that the changes which had lately taken place in commercial matters, had caused immense quantities both of gold and silver to be imported into this country. There was, therefore, not only no evidence of the alleged scarcity, but, on the contrary, the evidence proved the opposite fact.

61. But even, had there been a scarcity, the idea that the market price could rise above the Mint price, arose from a misconception. That gold was in this country the measure of all exchangeable value both by custom and law. That commodities were said to be dear or cheap, according as they exchanged for more or less gold; *but that a given quantity of gold could never exchange for a greater or less quantity of gold of the same standard fineness*, except by a very small quantity, which was



the measure of the convenience of having it in coin rather than in bullion, or the reverse. An ounce of standard gold, then, could never fetch more in the market than £3 17s. 10½d., *unless* £3 17s. 10½d. *in our currency contained less than an ounce of gold.* That if gold became exceedingly scarce it would become more valuable, compared to other commodities, whose prices would consequently *fall*, while the money price of gold must necessarily remain unaltered, but that was not the case at present, the prices of all commodities had *risen*, and the price of gold had also risen, which facts could only be accounted for by the state of the currency.

62. The report, then, explains the circumstances which might cause a difference between the market and the Mint price of gold, the deterioration of the coinage, the delay in having bullion coined, the obstruction to exportation,—these two latter causes amounted to about 5½ per cent. None of these causes existed at Hamburg with respect to silver. The currency was a regular fixed weight of silver, of standard fineness, and no obstruction was offered to the utmost freedom of exportation. And in England, the variation had never exceeded 5½ per cent., while the Bank paid in gold, and the coin was of full weight.

63. Since the suspension of cash payments, however, gold, in a manner, had ceased to be the measure of value, nor was there any other standard of prices than that circulating medium, issued partly by the Bank of England, and secondly, by the country banks, the variations in value of which were only proportionate to their quantity. That it was highly desirable that the value of this circulating medium should be brought to a conformity with its real and legal standard, gold bullion.

64. If the gold coin of the country were to become much lessened in weight, or debased in the standard, the market price would evidently rise in like proportion above the Mint price; for the Mint price is the sum in coin, which is equivalent in value to a given quantity, say an ounce, of the metal in bullion, and if the intrinsic value of that sum in coin be lessened, it is equivalent to a less quantity of bullion than before. The same effects would follow, if a paper currency, no longer convertible into gold, were issued in excess. For that excess, not being exportable to other countries, or convertible into specie, remains in the channel of circulation, and is gradually absorbed by the increasing prices of all commodities, which will rise exactly in the same manner as they rose when the great increase of the precious metals took place. Consequently, the prices of all commodities, bullion included, must rise, and, if this fall in the value of the currency of one country takes place without a cor-

responding fall in the value of neighbouring countries, their currencies will no longer retain the same relative value, and, consequently, the exchanges will fall to the disadvantage of that particular country. Such must be the effects in any country, of an excessive quantity of currency which is not exportable, and which is not convertible into coin which is exportable.

65. The difference of exchange between any two places, arising from the state of trade, and payments between, could never permanently exceed the expense of conveying and insuring the precious metals from one to the other. The position was so plainly true, and agreed upon by all practical authorities, both commercial and political, as to be perfectly indisputable. That in time of war the risk would, of course, be increased; but, taking into consideration all these circumstances, the entire expenses of sending bullion to Holland did not exceed 7 per cent., and to Paris a little more, these causes might, therefore, depress the exchange to that extent, but no lower. But the depression had lately amounted to nearly 20 per cent., consequently, after exhausting all these causes of depression, there remained a large residual depression to be accounted for; and that RESIDUAL DEPRESSION COULD ONLY BE ACCOUNTED FOR AND WAS OWING TO THE DEPRECIATED STATE OF THE DOMESTIC CURRENCY.

66. The great general result, then, of all these foregoing principles and facts was, that in the then artificial state of the currency, it was a point of the greatest importance to watch the foreign exchanges and the market price of gold bullion, and the Committee were anxious to know if the directors of the Bank of England regarded the matter in the same light, and whether the great disturbance in the price of gold and the foreign exchanges, during the last year, had made them suspect that the currency was excessive. The directors, however, totally repudiated those notions and ideas; they maintained that their issues and the foreign exchanges and price of gold had no connection whatever to each other, and that, in making their issues, they never paid the slightest regard to either one or the other, and that no modification of their paper currency would influence either the price of gold or the foreign exchanges.

67. The report then proceeds to disprove the opinions of the Bank by historical references. They quoted the cases of the derangement of the Scotch currency in 1763, of the Irish currency in 1804, both of which are fully detailed in this work, they then quoted the case of the Bank of England in 1696-7, which has been described with much minuteness in the preceding chapter, where the extract from this report has already been quoted and



commented upon. But, though we have been obliged to point out the grievous chronological errors with which it abounds, it is remarkable that the correction of these errors does not in any way weaken or contradict the arguments of the Bullion Report; on the contrary, the true state of the case materially strengthens and adds force to all the principles of the Report.

68. In former times, a high price of bullion, and an adverse state of the exchanges, had compelled the directors of the Bank to reduce their issues, to counteract the drain of guineas, and preserve their own safety. They, perhaps, did not understand the principles of the case better than the directors of the then time, but they felt the practical inconvenience, and were obliged instinctively to obey its impulse, which circumstance imposed a practical limit upon their issues. But, since the restriction, they did not feel the inconvenience, and that check had been removed; nevertheless, it was the clear and decided opinion of the committee, that the Bank ought to continue to regulate their issues by the market price of bullion and the foreign exchanges, in the same manner as they had been obliged to do before the suspension, and that the high price of gold bullion, and the depression of the foreign exchanges beyond the limits before described, were to be ascribed to the neglect of the due limitation of the paper currency.

69. Since the checks above described had been removed, the Committee were anxious to know, upon what principles the directors had regulated their issues. The Directors and some of the merchants showed a great anxiety to state a doctrine, of whose truth they were thoroughly convinced, that there could be no possible excess in the issue of Bank of England paper, so long as the advances in which it is issued consist of the discount of mercantile bills of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods. These were the principles which then governed the Bank, and what they said indicated the only true limit that need be imposed on their issues. Nevertheless, the Report says such a doctrine is wholly erroneous in principle, and pregnant with dangerous consequences. The Report then proceeds to shew the fallacy of this theory of paper currency, which, as we have already observed, we shall reserve for future consideration, along with several other theories upon the subject.

70. The limitation of the rate of interest by law to 5 per cent. produced injurious effects, by fanning a spirit of speculation, and making more extensive demands for discounts. Consequently, the directors themselves had been obliged frequently to limit their advances, and did not act up to their own principles, which

they considered sound and safe, and, consequently, they had no distinct or certain rule to guide them.

71. The suspension of cash payments had thrown into the hands of the Directors of the Bank, the important charge of supplying the circulating medium of the country at their sole discretion. That the most complete knowledge of the state of trade, combined with the most profound science in all the principles of money and currency, could not enable any set of men always to adjust the circulating medium properly to the trade of the country. That the precious metals were the only natural adjusters of these things, which could not be replaced by any human wisdom or skill. That the Directors of the Bank had exercised the new and extraordinary discretionary powers entrusted to them, with great integrity and regard to the public interests, according to their conception of it, and with more forbearance than might have been expected; but, unfortunately, the principles upon which they acted, were fundamentally erroneous, and they had been in a great measure the cause of the continuance of the great disturbance in the monetary system.

72. The Report then gave some statistics regarding the quantity of notes in circulation at different periods since the restriction. However, they said that the actual numerical amount of notes in circulation at any given time, was no criterion whatever, as to whether it was excessive or not. Different states of trade, and different extents of commercial operations, would require different amounts of notes. When public credit was good, a smaller amount would be required than when public alarm was felt, and people had recourse to hoarding. Moreover, the different methods of doing business, and economising the use of the currency, much influenced the amount which might be proper and necessary at any period. The improved methods of business, the policy of the Bank, the increased issues of country bankers, had all tended to diminish the quantity of Bank notes necessary for commerce. Consequently, the numerical amount alone was no criterion whatever; a surer test must be applied, and that sure criterion was only to be found in the state of the exchanges, and the price of gold bullion.

73. The experience of the crisis of 1793 had proved that an enlarged accommodation was the true remedy for the failure of confidence in country districts, such as the system of paper credit was occasionally exposed to. That it was true that the Bank had refused the enlarged accommodation in 1793. But the issue of Exchequer bills was exactly the same in principle, and the good effects that followed that issue proved the truth

of the principle, that if the Bank had had the courage to extend its accommodation in 1797, instead of contracting it as they did, the catastrophe which followed might probably have been avoided. Some persons thought so at that time, and many of the directors, since the experience of 1797, were now quite satisfied that the course adopted by the Bank in that year increased the public distress, in which opinion the committee fully concurred.

74. A very important distinction, however, was to be observed between a demand for gold for domestic purposes, sometimes great and sudden, and caused by a temporary failure of confidence, and a drain arising from the unfavourable state of the foreign exchanges, *that a judicious increase of accommodation was the proper remedy for the former phenomenon, but a diminution of its issues the correct course to adopt in the latter.*

75. That the present issues were excessive, but that it was essential to the commercial interests of the country, and to the general fulfilment of mercantile engagements contracted during the too free issue of paper, that the reduction should be made gradually and with great caution and discretion. They then give some details of the great increase of country Bank notes, and the facilities of abuse and excessive issues afforded by the then state of the law respecting them.

76. Upon all those facts and reasonings, then, the general conclusions arrived at were: That at that time there was an excessive paper currency, of which the most unequivocal symptom was the very high price of gold bullion, and next to that the very depressed state of the foreign exchanges. That the excess was to be attributed to the removal of all control on the issues of the Bank of England by the suspension of cash payments. It was greatly to be regretted, therefore, that this Act, which at best was only intended to be temporary, had been continued as a permanent war measure. The enormous evils and injury to all classes of the community by the great derangement of the measure of value, were too notorious to be necessary to describe, and there was every prospect of their continuing and increasing: that the integrity and honour of Parliament imperatively required that an end should be put to this state of things at the earliest practicable moment.

77. That the continuance of this state of matters held out a temptation to Parliament, to have recourse to a depreciation of the gold coin, by an alteration of the standard, which had been done by many Governments under similar circumstances, and which might be the easiest remedy to the evil. But it would be a great breach of public faith and of the primary duty

of Government, to prefer the reduction of the coin down to the paper, rather than the restoration of the paper to the legal standard of the coin.

78. Some proposals had been made of remedying the evil, by a compulsory limitation of the amount of the Bank's advances or discounts, or of its profits or dividends. All these, however, were futile, because the necessary proportions never could be fixed, and even if it were so, might very much aggravate the inconveniences of a temporary pressure, and even if their efficacy could be made to appear, they would be most hurtful and improper interferences with the rights of commercial property.

79. The only true and proper remedy for all these evils was, therefore, A RESUMPTION OF CASH PAYMENTS. That, however, was an operation of the greatest delicacy, and it must be left entirely to the discretion and prudence of the Bank to carry it into effect. Parliament should merely fix the time, and leave it to them to carry out the details. Under all the circumstances, a period of two years seemed to be not longer than necessary, and at the same time sufficient to enable them to prepare for it. The Committee finally concluded by recommending an Act to be passed to compel the resumption of cash payments in two years from that time.

80. Such, we trust, is a fair analysis of this famous Report, which has acquired a celebrity probably exceeding any report that has ever been presented to Parliament. It contains the eternal and immutable principles which must regulate every paper currency which makes any attempt to conform to the value of the gold it represents, and if any legislation on paper currency be considered necessary, it must endeavour to enforce the practical application of the principles of this Report, and just in so far as it deviates from or contravenes them, so it will be found to thwart and contravene the eternal principles of Political Economy. All legislation, then, on the currency should have as its object merely to provide the best machinery for ensuring the practical application of these principles. The general principles laid down in this Report are as complete a matter of demonstration as any in Euclid; the method of treating the subject is as scientific as any of the great discoveries in natural philosophy, which have excited the admiration of the world, nor could it fail to carry conviction to any one of ordinary intelligence who was capable of understanding the force of the arguments. No sooner, however, was it published than it was assailed by a whole multitude of pamphleteers, whose obscure memory it is not worth while to revive now. The interests affected by the Report were

too deep and extensive for it not to be attacked by every species of ridicule and acrimonious controversy. We must now advert to its reception and treatment in the House of Commons.

81. The Report was presented by Mr. Horner on the 9th June, 1810, but was not formally taken into consideration till the 6th May, 1811. It was the joint composition of Mr. Horner, Mr. Huskisson, and Mr. Henry Thornton. The debate was opened by Mr. Horner, who addressed the House for upwards of three hours in a speech which obtained the admiration of all who heard it. It is unnecessary to go over that speech here, because its line of argument has already been anticipated. He ended by moving a series of sixteen resolutions. The first seven related to the legal standard of value in this country, with reference to which all contracts were made in this country. 8. That the promissory notes of the Bank were stipulations to pay on demand the number of pounds sterling specified upon them. 9. That when Parliament passed the Restriction Act it had no intention that the value of these notes should be altered. 10. That, nevertheless, they had for a considerable time been below their legal value. (11.) which was caused by the excessive issues of them, both by the Bank of England and the country banks. 12. 13. That the extraordinary depression of the foreign exchanges was in great part owing to the depreciation of the currency of this country, relatively to that of other countries. 14. That during the suspension, the directors of the Bank ought to regulate their issues by the price of bullion and the foreign exchanges. 15. That the only method of preserving the paper currency at its proper value was to make it payable on demand in the legal coin of the realm. 16. That cash payments ought to be resumed at the period of two years from that time.

82. Mr. Rose replied to Mr. Horner:—"He said that he could shew that there was no depreciation of Bank paper from excessive issue, and that the Report was more full of errors and misstatements than any that had ever been made to Parliament. He was convinced that the issue of Bank notes could have no effect on the price of gold, or on the foreign exchanges. He denied that the increased price of commodities was in any way to be attributed to the increase of Bank paper. The report of the Committee was directly in opposition to the opinions of all the witnesses examined, except two. All "experience" was against the "reasonings" of the Report. He produced a table shewing the number of Bank notes in circulation at different periods, and the market price of bullion and the exchange with Hamburg, to shew that there was no connection whatever between them. However, the Committee had themselves most pointedly remarked that the numerical amount of notes alone



was no test of their depreciation. The enormous payments which England made to the continent during the last two years were quite sufficient to account for the fall in the exchange. That the rise in the prices of all commodities on the continent had been equally great in countries where there was no paper currency as here. He went into arguments at great length to disprove the idea that the issues of Bank notes had any effect on the price of gold or the exchanges.

83. Mr. Henry Thornton stated that the great question at issue between the Bullion Committee and the Bank was, whether its issues should be regulated by the price of gold and the foreign exchanges, and if its excessive issues produced any effect upon them. Mr. Thornton argued at great length in support of the principles of the Report, and cited the case of the Bank of France in 1805 as a remarkable confirmation of the truth of its principles. The French Government, having occasion for a loan, applied to the merchants for it, such a transaction being contrary to the rules of the Bank. The merchants proceeded to fabricate among themselves bills to the requisite amount, which they discounted at the Bank, which thus ultimately became the real lender. There was, in consequence, an enormous increase of the Bank paper, a great demand for specie. The Bank had to bring back specie from the provinces at a great loss—at length it stopped payment. Bank notes fell to a discount of 10 or 12 per cent., and the foreign exchanges fell 10 per cent. But the Bank reduced its paper, and in three months resumed payment without difficulty, and the foreign exchanges were rectified. Mr. Thornton also quoted several other cases of other countries where the same phenomena had occurred. He then passed on to the question of the standard of the currency, which he said was becoming endangered by this continued depreciation. Indeed, the argument in favour of a deterioration of the coin grew stronger every day. The very argument of justice, after a certain time, passes over to the side of deterioration. If we have only been two or three years using a depreciated paper, justice is on the side of the former standard; if ten or twenty years have passed since paper fell, it may be deemed unfair to restore the ancient standard. He concluded by strongly urging Parliament to return to the ancient standard before it was too late.

84. Mr. Vansittart, who moved the counter-resolutions to Mr. Horner, controverted, at great length, the principles of the Report. He asserted that the only mode in which a metallic currency could have a favorable effect on the exchanges was by *exportation*, and that if exportation was prohibited by law, no effect could be produced. The amazing absurdity of this



assertion has been sufficiently proved in the course of this work, to need repetition here. These assertions, however, were sober good sense compared to the lengths of wild extravagance into which he subsequently plunged. He said that the first seven resolutions argued on the supposition that the standard was something visible and tangible. "I affirm that a standard, in the sense used by these gentlemen, namely, a fixed and invariable *weight* of the precious metals as a measure of value never existed in this country!!" He ridiculed the idea of the resolution that the weight at which any such money is authorised to pass current is fixed!! These extraordinary ideas he attempted to support by reference to the degraded state the coin had been in at different periods, but which were yet legal tender, and which, he contended, proved that the coin was not any definite weight of bullion. It was upon this point, he said, that the question of depreciation depended. "Now, I do not consider myself bound either to admit or deny that Bank notes have lost a value which they never possessed, and which the legal coin of the country never possessed, namely, a value estimated by a fixed weight of gold or silver bullion. They never had any other than current value, founded on the public confidence in the Bank, and this value, I firmly believe, and have distinctly stated in my third proposition, that they possess as much as ever." When the whole of the rest of his speech was a mere repetition and development of such crazy ideas, it is mere waste of time to give any more details of it. There is one more specimen, however, which we cannot refrain from extracting. He says: "it appears then, that a diminution of the value of currency may have the effect of improving the exchange, but cannot by possibility depress it!!" Which means that the more debased and worthless the currency of a country is, the more favourable should be the foreign exchanges, or the higher should foreigners estimate it. So that, while the French assignats were daily falling lower and lower at home, the more should foreigners have given for them: so that, while the French themselves gave one livre in coin for 1,200 in assignats, the English and other foreigners ought to have given their full nominal value in coin, and even more than that according to Mr. Vansittart. He then made several triumphant observations about there being no difference in transactions between Bank notes and coin. He admitted that he had been a member of the Irish Committee of 1804, and had concurred in the opinion that Irish Bank notes were depreciated, but he said that the two cases were not parallel; for it appeared not only that the current coin was openly sold at a premium, but that an established difference of price existed between payments in coin and in Irish paper, while Bank of England paper passed as equivalent to guineas. This depreciation, however, he denied had

proceeded from excessive issues, but from the political circumstances of the period.

85. Such were the leading arguments against the conclusions of the Committee, which, though somewhat varied in expression, were constantly repeated. After the exposition given in our chapter on the Coinage, it would be waste of time to attempt seriously to disprove the outrageous folly of the proposition, that the coins of Great Britain never were intended to contain any fixed or certain quantity of gold or silver bullion in them. If this had been true, what was the need of having any gold or silver in them at all; if it was not to regulate their value?

86. With respect to the assertion that there was no difference in common payments between guineas and Bank notes, and that guineas were not openly selling at a premium, as in Ireland, the answer was simple and decisive: if it were so, it was merely through the terrors of the penal law. At the very time of this debate three men were lying under a conviction of the crime of selling guineas for more than 21s. They had been convicted under an old Statute of Edward VI., which did not extend to Ireland, so that the reason why guineas were sold publicly at a premium in Ireland was, that there was no law against it; in England it was a criminal offence, and, in consequence of this, guineas had disappeared from circulation. But Mr. Vansittart threw out another challenge, he acknowledged that it was legal for tradesmen to make a distinction in prices, according as they were paid in money, or in Bank notes, and he denied that such a distinction existed. On this point, however, he was met with a distinct denial by Mr. Huskisson, who said: "If paper were sustained at all in public estimation, it must be by a support growing out of terror, by an estimation proceeding at that moment from a consideration of a pending judgment. If this were once settled, public estimation would soon show what it really was. In every part of the country there were already two prices; he had undoubted proof of the fact. He had in his pocket a letter from a person intimately acquainted with such matters, which said that two prices were prevalent in the country, and that the usual premium for guineas was half-a-crown."

87. Mr. Sharp, a member of the Bullion Committee, adduced further facts to prove that the Bank notes were depreciated; he said it had been usual to send over specie to Guernsey to pay the troops there. *Each guinea had lately been paid to the soldiers at 23s.*; one regiment, however, had refused to receive them at that rate. In another case he knew of a person who had received a legacy of 1,000 guineas which was paid in specie;

he went to invest it in the funds, and, on asking the price of the 3 per cents., was told 64½. But, on asking what the price would be if paid in real money, he was told, after some consideration, he might have it at 60, which was the price actually paid. So that, while the Government were arguing at Westminster that guineas were of the same value as Bank notes, they were at the same time dishonest enough to pay them away to the soldiers at 23s.

88. Sir Francis Burdett stated that, in Jersey, Bank of England notes were at a discount of 3 per cent. as compared to the notes of their own little bank; that it was perfectly notorious that two prices were common throughout the country. He knew it from his own experience; he had been offered wine at far different prices, according as he should pay for it either in Bank notes or in specie.

89. We have now given so much space to this interesting discussion, that we can scarcely afford room to notice any of the other speeches upon the subject. When we read the arguments and evidence, which seem to be so perfectly satisfactory, according to all the usual principles that command assent, we feel some curiosity to know what was the opposing theory set up against them, and it was simply this, that the pound sterling was nothing tangible at all! It was an imaginary vision! a vague idea! an airy nothing! which never had any existence in nature at all, and that, accordingly, everything, money and bullion included, might vary in endless changes round this ideal centre. It had even less substantiality than a whiff of smoke! It was "a sense of value" communicated in some mysterious way from one person to another. Mr. Canning pursued the author of this insensate folly with unsparing ridicule in his speech. He also ably pointed out the consequence of not allowing guineas to circulate at their market value, which had been followed by their total disappearance, whereas, dollars, which were beginning to disappear, when they were bound down to the value of the depreciated Bank paper, were immediately restored to circulation, when they were allowed to pass current at their real value. However, though he fully agreed in all the principles and reasonings of the Bullion Report, he did not think it expedient that the Bank should be called upon to resume cash payments in so short a period as two years.

90. After a debate of four nights the Committee divided on the first of Mr. Horner's resolutions, and it was negatived by a majority of 151 to 75. The fourteen next were negatived without a division, and the last was rejected by a majority

of 180 to 45. Among the names of the majority was that of ROBERT PEELE.

91. The Ministry, having defeated the Bullion Committee by so great a majority, would have done well to let the matter rest. As to the matter of fact agitated between the parties, the depreciation or the non-depreciation of the Bank notes, it would be useless to waste one word more, and in arguing against so palpable a fact, the ministerial party shewed little discretion. They might easily have saved their credit by admitting the fact, but arguing that it was not expedient for the public service that so momentous a change should be made during the war. Not content, however, with procuring the total rejection of Mr. Horner's resolutions, Mr. Vansittart, in the plentitude of his power and party strength, and in the mere wantonness of tyranny, determined to drag the House through the lowest depths of ridicule and absurdity. He moved a series of resolutions which are too long to be inserted here, to the effect that there was no legal weight of bullion in the coins, beyond what the caprice of each Sovereign might dictate; that the Bank notes were merely promises to pay in these coins, and they always had been, and at that moment were held equivalent in public estimation to the legal coin of the realm, and generally accepted as such in all pecuniary transactions to which such coin is lawfully applicable, and that the price of bullion and the state of the foreign exchanges were in no way owing to excessive issues of Bank paper.

92. In introducing his resolutions Mr. Vansittart made a speech of enormous length, repeating his former views, that the state of the domestic currency had no effect upon the foreign exchanges, and, with a flight of unheard-of audacity, he, in defiance of the recorded opinion of Parliament and the unanimous testimony of all contemporary writers, made the extraordinary assertion that in 1696 and 1774 "the fall of the exchange, was the cause, and not the consequence of the depreciation of the currency!" Mr. Canning in vain attempted to persuade the Ministers to rest satisfied with the defeat of the Bullion Committee, and, for the sake of the reputation of the House, not to make them pass a vote which no one outside the House could speak of without laughter. His amendment was rejected by a majority of 82 to 42; and, after some other minor divisions, Mr. Vansittart's resolutions were carried.

93. We have observed that guineas were not sold openly at a premium, because it was generally believed to be a criminal offence to do so, and three men were tried and convicted for so doing. To draw any argument of the equality of the value of



the note and coin under such circumstances, was nothing but a contemptible piece of sophistry. But nothing could be more whimsical or absurd than the presumed state of the law on subject. It was held to be penal to part with a Bank note for less than 20s. in bullion, but it was quite legitimate for a tradesman to make two prices for his goods. In his speech against Mr. Horner's resolutions, Mr. Vansittart had taunted his opponents with the circumstance that this was not done. It is incredible how any one could have made an argument of such an absurdity, when it was so easy to outwit the law. If any one wished to avoid the legal offence of parting with a guinea for more than 20s., what more easy than a collusive sale? Sell a loaf to any man for a £1 note and 5s., and buy it again from him at a guinea, and the interchange between the guinea and the £1 5s. was effected in the most legal manner. But such subtleties were at once put an end to by the Court of Common Pleas unanimously quashing the conviction of De Yonge, and declaring that it was no crime at all to sell guineas at a premium.

94. After the House had indulged in this wild freak—the very saturnalia of unreason—and given so great an encouragement to the Bank to pursue its wild career, it became evident to any one who understood the subject, that the value of every man's property depended upon the will of the Bank directors. This was fraught with the most alarming consequence to every one who had a fixed annuity, as, while the price of every article of prime necessity kept pace with the depreciation of the currency, any one, like a landlord, having a fixed rent to receive, was paid in a depreciated paper, while his tenants received the increased nominal prices of their commodities. As matters were continually getting worse, gold having risen to £4 16s. per ounce in March, Lord King issued a circular to several of his tenants, reminding them that their contract was to pay a certain quantity of the legal coin of the country, and that the present paper currency was considerably depreciated. He said that, in future, he should require his rents to be paid in the legal gold coin of the realm, but that, as his object was merely to secure the payment of the real intrinsic value of the sum stipulated by the agreement, he should be willing to receive the amount in Portugal gold coin of an equal weight with that of the stipulated number of guineas, or by an amount of Bank notes sufficient to purchase the weight of standard gold requisite to discharge the rent.

95. That such a demand was legal no one pretended to deny; but when this practical sarcasm was passed upon the resolution of the House of Commons, it drove that party wild, and the most unmeasured abuse was heaped upon him for *incivism*. Not only was this in every way legal, but nothing could have been

more equitable. His tenants were receiving the increased market prices for their crops, and only paid him in the same number of depreciated notes. It is quite clear that, if his tenants got an increase in the price of their corn owing to the depreciation, he ought to have received a proportionate increase in his rents. Lord Stanhope brought in a bill, which, after being considerably modified, was ultimately passed, making it a misdemeanour to make any difference in payments between guineas and Bank notes. Lord Stanhope, in bringing in the bill, mentioned several instances which he had been informed of, in which 27s. were demanded for a guinea. Lord Holland also said that a pound note and seven shillings were currently given for guineas. Admirable commentary upon the resolutions carried so triumphantly in the House of Commons only two months before, and then standing on their journals, that in public estimation guineas and Bank notes were equal!

96. Lord Grenville opposed the Bill with great earnestness, and his opinion is particularly valuable because he was one of the Cabinet who originally proposed the Restriction Act. He said he had never seen the Ministers of the country in so disgraceful a position as they were that night. He turned the famous resolutions of the House of Commons into great ridicule, and said that it had been left for Robespierre, the Jacobins, and the present Ministry to raise a cry of *incivism* against the private actions of individuals. He said that it was one of the most painful days in his and Mr. Pitt's political life, when they felt compelled to come to Parliament to propose the restriction. "By what consideration we were afterward induced to extend it for successive short periods, it is unnecessary to explain, suffice it to say, that they are considerations which I shall ever deeply regret had any influence upon my mind. I do assure my noble friend (Lord King) that I have long since fully concurred in the arguments which he has urged against the original policy of that restriction." He said that the present course, if persevered in, must end in the same manner as the Mississippi and South Sea Schemes, in total ruin. "My Lords, it has often been my lot to point out the inevitable results of the issue of assignats in France. How little did I then imagine that, in the description I then gave, I was but anticipating what, in the course of twenty years, would be the faithful picture of my own country!"

97. Although we have given so much space to this debate, we cannot refrain from giving a few sentences from Lord Stanhope's reply, as they concentrate in the shortest space the whole of the ministerial arguments and views on the subject:—

"Earl Stanhope, in explanation, said that there was no such



thing in this country as a measure of value founded on a quantity of bullion of standard fineness. The legal coin was the money with the stamp upon it. The stamp was what made it the lawful coin, not to be melted nor transported, and not the weight and fineness. He did not know what mathematicians he had to deal with, but if Bank notes and gold bore a fixed proportional ratio to the pound sterling by law, they were equal to one another, and to prove this he need go no further than the first book of Euclid, where it was laid down as an axiom that things equal to the same are equal to one another."

98. We are accustomed to smile at the famous decree of the Inquisition, which resolved that the motion of the earth was false, and sympathize with Galileo, who, when retiring from their rebuke, said "*e pur si muove*," "it moves for all that." But the famous resolution that guineas were equal in public estimation to Bank notes, when guineas were currently sold for a £1 note and seven shillings, and the dictum of Lord Stanhope that they *were* equal because the law *declared* them to be so, infinitely transcends it in absurdity; and, when we feel inclined to be merry at the expense of the worthy fathers of the Inquisition, we should think of Mr. Vansittart's resolution, and be grave.

99. The Bill was warmly contested in every stage of its progress through the House of Lords, but finally passed the third reading by a majority of 43 to 16. In the House of Commons the debates were equally warm and protracted, but it was finally passed by a majority of 95 to 20. The Act was originally limited to the 24th March, 1812, but it was subsequently continued during the continuance of the Bank Restriction Act.

100. We shall reserve some remarks regarding the effects of the great overtrading of 1809 and 1810, till the chapter in which we shall consider the theory of the Bank respecting the issues of its notes upon mercantile security.

101. Among other arguments alleged against the opening of the Bank, was the injustice of compelling it to buy gold at the increased market price. Now that we are enabled to take a more dispassionate view of the subject than those whose interest were so much involved in it at the time of the debate, we can see that there was no hardship in such a requirement. Every creditor who was paid in these depreciated notes was defrauded of 20 per cent. of his debt, and, considering the enormous gains made by the Bank at the expense of the holders of its notes, justice evidently demanded that the Bank should purchase whatever quantity of gold was sufficient to discharge its obligations,

cost what it would. The injury to the holders of its notes, severe as it was, was only temporary, but a very much more serious injury was done to the nation, by adding an enormous amount to the national debt, which was contracted in this depreciated currency.

102. The harvest of 1811 was extremely deficient, and that was the period, too, when the power of Napoleon was at its height, and the continental sources of supply were cut off. Towards the middle of 1811, the price of corn began to rise very rapidly, and continued doing so till August, 1812, when it reached its greatest height during the war. The average of wheat for England and Wales was then 155s., and some Dantzic wheat brought 180s., and, in one or two instances, oats were sold at 84s. The advocates of the rival theories attributed this extraordinary rise to different causes; one party almost entirely to the depreciation of the paper currency, the other party almost entirely to the great scarcity. Mr. Tooke is the most distinguished advocate of the latter view, and, in support of it, brings most forcible arguments from the corresponding rise which took place in France during the same period, where the currency was almost purely metallic. Admitting to the full extent the powerful arguments adduced by Mr. Tooke, which derive additional force from his being a cotemporary of the circumstances he describes, we can yet hardly think he can be correct in so entirely excluding the effect of the depreciation of the paper currency as he does. We have abundance of evidence that, before the Gold Coin and Bank Note Bill, there were very generally two prices in the country, a gold price and a paper price: after that Bill that was abolished, and there was nothing but a paper price, and gold totally disappeared from circulation; but can we doubt that if any price had been paid in gold, there would have been a very great difference between the two, fully as great as before that Act? If, then, it be granted that such would have been the case if payments had been made in gold, it seems to follow that, when prices were paid solely in paper, they must be considered to have been enhanced by just so much as the difference would have been, if any payments had been made in gold. There does not appear to be the least reason to suppose that the scarcity was comparatively greater in 1812 than it was in 1800; in fact, the evidence seems to be entirely the other way, that the scarcity and distress was much greater in the former period, yet in 1812, the average rose to 155s., in the former it was only 133s. Whence this difference? We think the evidence points clearly to the depreciation of the paper in which payments were reckoned. Now, in May and June, 1812, the price of gold bullion was about £4 18s. per ounce, at which the real value of the note was 15s. 11d. Now, are we

to suppose that the enhancement of prices, when paid in paper, which was quite notorious before Lord Stanhope's Bill, was actually annihilated by that Act?

103. The principles of the Bullion Report having been decisively rejected by Parliament, and pronounced to be fallacious, by the resolutions which declared 21 to be equal to 27, the Bank took no measures to bring their notes to a nearer conformity to their nominal value, and the market or paper price continued to rise till, in November, 1813, it stood at £5 10s., the greatest height it ever reached. The long continuance of high prices, partly caused by a continued series of deficient harvests, and partly by the depreciation of the paper in which they were paid, gave rise to the belief that they would continue permanent. Immense speculations began in land-jobbing, vast tracts of waste and fen land were reclaimed. It was at this time that the immense agricultural improvements in Lincolnshire were effected. Rents in most cases rose to treble what they were in 1792; all the new agricultural engagements entered into at this period were formed on the basis of these extravagant prices; landlords and tenants increased their expenditure in a like proportion, family settlements were made on a commensurate scale. As a natural consequence, country banks greatly multiplied. In 1811 they were 728, in 1813 they had risen to 940, and the amount of their issues were supposed, on the most moderate estimate, to be about £25,000,000. After the disasters of the French in the Russian Campaign of 1812, and the Battle of Leipsic, the ports of Russia and Northern Germany were thrown open to British commerce. This naturally gave rise to enormous speculative exports and overtrading.

104. The harvest of 1813 was prodigiously abundant, so that the price of corn, which in August, 1812, had been 155s., and had receded gradually from that point, till August, 1813, fell with great rapidity, and in July, 1814, was only 68s. The exporting speculations were at their height in the spring of 1814, and the prices of all such commodities rose to a very unusual height, in many cases to double and triple of what they had been before. Every branch of industry was by the preceding causes affected, and the natural and inevitable consequences soon followed: a violent revulsion and general depression of prices of all sorts of property, which entailed such general and universal losses and failures among the agricultural, commercial, manufacturing, mining, shipping, and building interests, as had never before been paralled. As is always the case, the consequences of the wild speculations and engagements persons had entered into during the continuance of the fever continued to be felt for some years after. The disasters commenced in the Autumn

of 1814, continued with increasing severity during 1815, and reached their height in 1816-17. During these years 89 country bankers became bankrupts, and the reduction of the issues of country paper was such, that in 1816 its amount was little more than half what it had been in 1814.

105. This general discredit of country Bank paper, resembling what had previously occurred in 1793 and 1797, caused a demand for additional issues from the Bank of England, to help to maintain public credit; and, though this caused an extension of the Bank paper by upwards of three millions, so great was the abstraction of country Bank paper from circulation (to certainly three times the amount of the Bank of England issues), that the value of the whole currency rapidly rose, so that, while in May, 1815, the market or paper price of gold was £5 6s., the exchange in Hamburg 28·2, and that on Paris 19· in October, 1816, the paper price of gold had rapidly fallen to £3 18s. 6d., the exchange with Hamburg was 38·, and that on Paris 26·10., and they remained with little variation at these prices till July, 1817.

106. Hence, at length, was manifested the most complete triumph of the principles of the Bullion Report. The great plethora of this worthless quantity of paper currency being removed, the value of the whole currency was raised almost to par, so near, in fact, that the smallest care and attention would have brought it quite to par; and if means could have been taken to prevent the growth of the rank luxuriance of country Bank notes, cash payments would have been resumed at this period with the utmost possible facility, and, as a matter of course, without exciting the least comment.

107. We have seen that, on several previous occasions, the Bank had intimated to the Government their perfect readiness and ability to resume payments in cash, but had always been prevented from doing so for political reasons. In 1815, when peace was finally restored, they prepared in good faith to be ready to do so as soon as they should be required, and, during that year and 1816, they accumulated so much treasure that, in November, 1816, they gave notice of their intention to pay all their notes dated previously to the 1st January, 1812, and in April, 1817, all their notes dated before 1st January, 1816. When this was done, there was found to be scarcely any demand on them for gold. The nation had got so accustomed to a paper currency that they were most unwilling to receive gold for it. Mr. Stuckey, one of the largest bankers in the West of England, said, that during this partial resumption of cash payments it cost him nearly £100 to remit the surplus coin which accumulated upon him to London, as he could not get rid of it



in the country, his customers all preferring his notes; many persons who had hoarded guineas requested as a favour to have notes in exchange.

108. In March, 1812, the restriction was prolonged to July, 1816. The bill was brought in and passed before the news of Napoleon's quitting Elba had reached England. The Act was scarcely passed when the new war broke out which ended at Waterloo, and the expenses of the campaign made the Ministers dread a monetary crisis, and the restriction was subsequently prolonged till July, 1818.

109. The partial resumption of cash payments was attended with perfect success; it caused no very great demand for gold, which continued to accumulate in the Bank till October, 1817, when it reached its maximum, being £11,914,000. In that month the Bank gave notice that it would pay off in cash all the notes dated before 1st January, 1817, or renew them at the option of the holders. In the course of 1817 a very large amount of foreign loans were contracted for; Prussia, Austria, and other continental States of lesser importance, were endeavouring to replace their depreciated paper by a metallic currency, and, as money was abundant in England, a very large portion of these loans was taken up here. The effect of this began to manifest itself in April, 1817, when the exchanges with Hamburg and Paris began to give way, and the market price of gold to rise. These phenomena increased gradually throughout 1818, until in January, 1819, the price of gold was £4 3s., the exchange on Hamburg 33·8 and that on Paris 23·50. In July, 1817, the new gold coinage began to be issued from the Mint in large quantities. The consequence was a steady demand for gold set in upon the Bank, and, in pursuance of its notices, the sum of £6,756,000 was drawn out of it in gold. Just at this time the British Government reduced the rate of interest upon Exchequer bills. The much higher rate of interest offered by continental Governments caused a great demand for gold for exportation, and in the beginning of 1818 a very decided drain set in. The Bank directors, however, determined to set all the principles of the Bullion Report ostentatiously at defiance. While this great drain was going on, they increased their advances to Government from £20,000,000 to £28,000,000, and, though they knew perfectly well that the demand of gold was for exportation, they took no measures whatever to reduce their issues for the purpose of checking the export. At the same time the issues of country banks had increased by two-thirds since 1816.

110. This demand for gold became more intense during 1818

and 1819, and it became evident that the Bank would soon be exhausted if legislative interference did not take place. Accordingly, on the 3rd February, 1819, both Houses appointed Committees to inquire into the state of the Bank; and, on the 5th April, they reported that it was expedient to pass an Act immediately to restrain the Bank from paying cash in terms of its notices of 1816-17. An Act for that purpose was passed in two days' time. It was stated in the Report of the Commons that in the first six months of 1818, 125 millions of francs had been coined at the French Mint, three-fourths of which had been derived from the gold coin of this country. The Act forbade the Bank to make any payments in gold whatever, either for fractional sums under £5, or any of their notes, during that Session of Parliament. The Act, therefore, totally closed the Bank for payments in cash.

111. As we have given the names of the Committees of 1804 and 1810, we subjoin those of the Committees of both Houses in 1819. Those in the Commons were Lord Castlereagh, Mr. Vansittart, Mr. Tierney, Mr. Canning, Mr. Wellesley Pole, Mr. Lamb, Mr. F. Robinson, Mr. Grenfell, Mr. Haskisson, Mr. Abercromby, Mr. Banks, Sir James Mackintosh, Mr. Peel, Sir John Nicholl, Mr. Littleton, Mr. Wilson, Mr. Stuart Wortley, Mr. Manning, Mr. Frankland Lewis, Mr. Ashhurst, Sir John Newport. The Committee of the Lords were the Earl of Harrowby, Duke of Wellington, Marquis of Lansdowne, Duke of Montrose, Earl of Liverpool, Earl of St. Germain, Earl Bathurst, Viscount Sidmouth, Earl of Aberdeen, Earl Granville, Lord King, Lord Grenville, Lord Redesdale, Earl of Lauderdale.

112. The chief points of interest in these reports regarding our present subject, are the opinions held by the witnesses respecting the great doctrines of the Bullion Report. The reports of neither House entered into the question of the theory of the currency, they were confined to recommending a certain course of action; but they examined a number of witnesses of the first eminence on the subject, and the result of their evidence is most extraordinary. It will be remembered that, both in 1804 and 1810, the immense preponderance of commercial testimony was entirely adverse to the doctrine that the issues of paper currency had any effect upon the exchanges, or the price of bullion, or should be regulated by them. Nevertheless, the reports of both Committees were entirely in the teeth of the mercantile evidence. The Bullion Report had now been before the country for nine years, and had caused more public discussion, both in Parliament and in the press, than almost any subject whatever; and it is perfectly manifest that if its principles were erroneous, the commercial world would only have been further strengthened in



their opposition to them. But what was the result now? The overwhelming mass of commercial evidence was entirely in their favor. The current of mercantile opinion was now just as strong on their side as it had formerly been against them. What could be more triumphant than this? What could be more splendid testimony to their accuracy and soundness than the fact that they had converted the immense hostile majority of the commercial world?

113. In order to give some idea of this remarkable change in opinion, we must make some extracts from the evidence of the witnesses.

Mr. Dorreïn, Governor of the Bank, said to the *Lords' Committee*, p. 31 :—

“The advances of the Bank to Government upon Exchequer bills cannot be recalled at the pleasure of the Bank. But, when money is lent at short periods, the Bank has a control over an excess of circulation, so as to check any improper speculation, and the means of sending bullion out of the country; and thus the Bank would have an influence over the foreign exchanges.”

“Are you, then, of opinion that the exchanges are affected by the increase or diminution of the number of Bank notes in circulation?”

“A scarcity of circulating medium, of whatever it may consist, will oblige merchants to draw in their funds from foreign countries, and the superabundance of it will send the precious metals out of the country.”

“The consequences of a scarcity of money would be to force an export of merchandize and manufactures, which would render the exchanges favourable to this country.”

(*Before Commons' Committee*, p. 32.)

“A lessened circulation will have an effect to render the exchange favourable?”

“Because it would force an export of merchandize, and an export of merchandize would bring money into the country.”

“You have said that a contraction of the issues would lower all prices. Are the Committee not to understand that it must lower the prices of gold and silver, as well as of all other commodities?”

“I apprehend it would.”

“Assuming the course of foreign exchanges to be 5 per cent. against this country, would not the effect of a diminution in the price of commodities, clearly, consequent on a diminution of issues, be to restore the exchanges to par?”

“The effect would be to force an export, and thereby raise the exchange.”

114. Mr. Pole, Deputy-Governor to the Bank, said to the *Lords' Committee*, p. 35 :—

“Whether the gold appearing to vanish, and going out of the country, does not proceed, in your judgment, from the unfavourable state of the exchanges?”

“Certainly.”

“Is it your opinion that the exchanges are affected by the increase or diminution of the circulation of Bank of England notes?”

“Inasmuch as in that case the interest of money becomes so reduced in this country as to hold out a beneficial prospect to persons in sending their capital from this country, to be invested in foreign securities, where a larger interest is made, consequently, a debt is created from this country, payable to foreign countries.”

(*To Commons' Committee*, p. 35.)

“Do you think a considerable reduction in the amount of your paper issues would affect the exchange?”

“I do.”

“Is the answer you have given with respect to the effect upon the exchange of a reduction of the issues of the Bank founded on observation and experience of particular cases, or the result of reasoning only?”

“Entirely upon reasoning; and my reasons are, that I conceive it would compel persons to withdraw their capital from the Continent to this country, on purpose to be able to support their own payments.”

115. Mr. Haldimand, a director for ten years, but at that time out by rotation, said to the *Lords' Committee*, p. 40 :—

“Do you conceive that, by a considerable reduction on the part of the Bank of the amount of its issues, the Bank would be enabled to resume with safety its payments in cash?”

“Most decidedly.”

“Are we to understand, then, that, in your judgment, the effect of such a reduction of its issues would be to render the exchange favourable to this country?”

“I certainly have always considered the amount of the issues of the Bank of England to act as a powerful lever upon all our foreign exchanges, so as to regulate their rise and fall.”

“I conceive the exchange to be affected by the aggregate amount of the issues of the country bank, and Bank of England paper.”

“You have stated, on a former day, that you always considered the amount of issues of Bank notes to act as a powerful lever upon all foreign exchanges, so as to regulate their rise and fall; do you apply this to the price of gold?”

“I do.”

"Do you ground this opinion upon reasoning, or upon what you have observed to take place?"

"I have grounded my opinion formerly upon reasoning, and my observation has since justified that opinion."

The witness produced a report of the Governor of the Bank of France, detailing a commercial crisis, and offering very strong and clear proof that an excess of paper circulation did affect both the exchanges and the price of bullion.

"It appearing from the accounts before us that the exchanges were very nearly par in the month of September last, and afterwards became more unfavourable than they had been since 1815, to what do you ascribe the great depression which has taken place since that time?"

"It would be difficult to point out the particular circumstances independent of the great principle of the depreciation of our paper currency, which affect our exchanges from time to time. I believe that the investments in foreign stocks did for a moment produce part of that fall, but I should attribute a very small part of it to that cause, and fall back upon my principle of an excess of currency. I most certainly believe that, had the Bank at that moment been paying its notes in specie, the depression alluded to would not have taken place. I ground my opinion on what I observe to be passing between other countries with regard to their exchange operations. France has at this minute nearly twenty millions sterling to pay to foreign powers; and although three payments have been already made, and the whole are to be completed within 27 months, no sensible effect has been produced upon its exchanges with other countries equally paying their notes in specie, such as Holland and Hamburg; nor does it appear that any inconvenient diminution has yet taken, or is contemplated to take, place in the metallic currency of that country. My opinion is, that a very small portion of this large payment will be made in specie or bullion. When a certain amount of the circulating medium has left France, the remainder will rise in value, and goods fall in price, when, consequently, it will become more advantageous to France to remit the remainder in its produce and manufactures from time to time."

*(Before Commons' Committee.)*

"I look upon this forced reduction of the issues of the Bank of England as necessary in order to restore the rest of the paper in circulation to its ancient value in gold, and the exchanges to par. I have no hesitation in stating it to be my decided opinion, that the exchanges would be restored to par immediately the Bank resumed its payments. I think the depressed state of the exchanges arises entirely from the excessive issue of Bank of England notes. I have never heard of any country not paying its paper in specie on demand where such paper has not been depreciated."

"You are understood to say, it is your opinion that the foreign exchanges and the price of gold are principally affected by the amount of issues of paper currency?"

"That is my opinion."

"What reason have you for believing that the circulation for the last half-year bore a greater proportion to the supply required for the purposes of trade than the circulation of the last half-year of 1817?"

"Because the paper was more depreciated at one time than at the other; or, in other words, because the market price of gold was higher at the former than at the latter period."

"Do you consider the price of gold to be the chief criterion by which to judge of the excessive issue of Bank notes?"

"I do."

"I happened to be in Paris in October last, when the Bank of France reduced its issues upon discounts very considerably and suddenly. The issues of the Bank of France upon discounts at that period were 130 millions of francs, which was more than double the highest amount that was ever previously known. This step on the part of the directors of the Bank of France was occasioned by the following circumstances. The metallic currency was leaving the country in all directions, owing, in all probability, to some trifling degree to the over-issue of paper, partly to some large financial operations in Russia, and partly to the enormous payments that France had engaged to make to foreign powers, which amounted to nearly 20 millions sterling. The Paris bankers, therefore, anticipating a great demand for bills upon all foreign countries, were remitting specie to meet the drafts which they intended to negotiate to the agents of all those foreign powers, with a small advantage upon their remittance. The sudden diminution, however, of the discounts of the Bank, caused the exchange to turn in favor of France, and immediately paralyzed all these operations; the metallic currency made a retrograde movement, and was restored to Paris and to those parts where the greatest distress had been felt."

"You have stated that you attribute the present high price of gold above the Mint price, and the unfavorable state of the exchange, to the excessive issues of the Bank of England, influencing thereby the general paper circulation of the country; have you any other reason for deeming the issues of the Bank of England to be excessive, except that indication which you collect from the price of gold and the state of the exchange?"

"I never saw these effects produced by any other cause in any country in the world."

"Is the Committee to understand your opinion to be, that a high price of gold and an unfavorable state of the exchange ought, in the discretion of the Bank of England, to lead to a reduction of their issues until that high price of gold or un-

favourable state of exchange is reduced, if not to par, to that price above par which amounts to the expense of transfer of the precious metals from one country to the other?"

"I am decidedly of that opinion."

"Is the Committee to understand you to be of opinion that that is the true criterion for the Bank to look to, whether the Bank be open or shut?"

"It is, in my conception, the only criterion."

"I consider the same doctrine to hold good in the case of war as well as of peace."

"You are of opinion that the partial openings of the Bank failed in effect, because the Bank did not simultaneously contract their paper issues, and not because a partial opening would in no case have any effect whatever?"

"In my view of the subject, a partial opening will always fail unless the whole currency of the country be previously reduced in amount, so as to restore it to the standard of the metallic currency thus partially issued."

"Of that restoration, you are understood to admit no other test than the favourableness of exchange and the reduction of the price of gold to the Mint price?"

"I know of no other test."

"If we reduce the amount of our paper circulation sufficiently, the precious metals would flow into the country from every direction—no Act of Parliament could stop the current."

"I should consider it a breach of contract for the Government of this country to alter the Mint price of gold."

This witness entered into numerous details in support of his opinions, which would be too long to insert here.

116. Mr William Ward, a Bank director, a cambist, and Mediterranean merchant. *Lords' Committee*, p. 60:—

"You have stated that a reduction of four millions in the amount of Bank notes in circulation would probably produce a favourable turn in the exchanges; do you found such an opinion upon reasoning, or upon having observed, as a cambist, that the diminution or increase in the numerical amount of Bank notes has usually produced corresponding effects upon the exchanges, and the price of gold in this country, since the Bank restriction?"

"I ground my opinion upon reasoning; I do not rely upon the numerical amount of Bank notes exclusively."

"Can we confidently depend upon the effect of a reduction of Bank notes towards producing a favourable exchange?"

"I would rely upon it in an exchange transaction where my own interest was at stake."

(*To the Commons' Committee*, p. 73.)

"To what extent do you conceive the rate of exchange and the price of gold are affected by the issue of Bank notes?"



"I conceive they are affected to a very considerable extent, directly or indirectly."

"Supposing the other causes which affect the exchange to operate equally at two different periods, do you think the price of gold, and the rate of exchange, would be the criterion by which you might judge of the adequate or excessive issue of bank notes?"

"Yes, I do."

"Under a system of cash payments, do you believe that the market price of gold will ever be permanently above the Mint price, or the rate of our foreign exchanges more below par than would amount to the expense of the transmission of gold from this country to the Continent?"

"No; the market price would not exceed the Mint price permanently."

"Then, would the Bank ever have occasion to pay more than the Mint price for the gold they purchase?"

"I conceive they would not have to pay more."

117. Mr. Samuel Thornton, Bank director for thirty-nine years. *Commons' Committee*, p. 85:—

"In regulating the amount of their issues, by what principle is the conduct of the Bank of England guided?"

"I have always considered it my duty to consider the amount of the notes out, and what could be the cause for a call for an increase. I also felt it my duty to look at the state of the foreign exchanges, and the price of bullion."

"Have the goodness to state your reason for thinking it desirable to take into the account the rate of exchange, and the price of bullion, in regulating the amount of the issues?"

"It must be obvious that if there were an excess of Bank notes beyond what was required by the trade of the country, the price of bullion would thereby be raised; and I am ready to admit that it would have the same effect upon the exchanges."

118. Mr. John Irving, of the firm of Reid, Irving, and Co., *Commons' Committee*, p. 94:—

"Putting out of consideration the embarrassment of trade which might be occasioned by a limitation of the issues of the Bank, do you think it is in the power of the Bank, by such limitation, to restore a favourable rate of exchange, and to reduce the price of gold?"

"I am of that opinion."

"Could such fluctuations take place if we possessed a metallic currency, as to the measure of our exchange with foreign countries?"

"Certainly not."



119. Mr. Holland, a partner of Baring, Brothers, and Co., *Commons Committee*, p. 114:—

“In what degree do you consider that the foreign exchanges are affected by the increase or diminution of Bank of England paper?”

“I certainly consider that the foreign exchanges are affected by the increase of Bank of England paper.”

“Do you think a considerable reduction of the amount of Bank of England paper would have the effect of restoring the exchange in favor of this country, and of preventing any very considerable depression?”

“That is my opinion.”

“As you consider there would be no great fluctuation in the price of gold, supposing the circulation of this country to consist of coin, or paper convertible into coin, to what do you attribute the present fluctuations?”

“The quantity of paper in the market is greater than the market can bear. If it is thought desirable to reduce the price of gold to £3 17s. 10½d., I conceive that that can only be done by a reduction of the paper.”

“You have stated that action and re-action will bring exchanges round, and bring gold to its level; if that is the case, in what way can you account for the circumstance that the coin has, from the beginning of his present Majesty’s reign, constantly found its way out of the country, and not found any re-action to bring it back again?”

“If the market price of gold is higher than the Mint price, it is impossible to keep it in the country.”

“Would you not think one of the circumstances that would render the exchanges unfavourable to this country, and raise the price of gold above the Mint price, to be an unfavourable state of things in this country, or, in other words, a balance of payments against the country?”

“No, I do not; because I should call gold the general leveller between all commercial nations, and that it invariably brings back the exchanges to their proper level, taking gold against gold, as the standard of value.”

“If the Bank of England paid in specie upon demand, do you believe there ever could exist, for any length of time, a material difference between the Mint and the market price of gold?”

“Decidedly not, in my opinion.”

120. Mr. Thomas Tooke. *Lords’ Committee*, p. 168:—

“By what means do you think that the exchanges could be restored, and the price of gold reduced?”

“By keeping down the Bank issues of their notes to their present amount, and judging, by the course of exchange and of the bullion market, how far any further reduction might be necessary to accomplish that object.”

“What do you mean by our circulation being at a level with that of other countries?”

“When the price of bullion and the exchanges combined are at, or within a trifle of, par.”

“Do you consider a favourable course of exchange as an indication that there is not an excess of paper issues?”

“If that state of exchange is of any considerable duration, it affords a presumption that the issue has not been excessive during that period, but the only undeniable test is the price of gold being that into which the paper is convertible.”

“It appearing by accounts before the Committee, that from the 13th April, 1804, to the 17th November, 1805, being eighteen months, that the market price of gold was uniformly £4, and that during the same period of eighteen months the course of exchange was uniformly in our favour, are you of opinion that during that time there was an excess of paper issued?”

“Upon the whole, I should answer in the affirmative, as I have before said that I consider the price of gold to be the only merring test, and that the exchanges, even for moderately long intervals, afford only a presumption.”

“State the ground upon which you consider the price of bullion as a surer test of the question of the excessive issue of paper, than the course of exchanges?”

“Because, if the coin be perfect, and the paper strictly convertible into that coin, there cannot be any inducement to any individual (the Bank issuing the paper excepted) to give more than £3 17s. 10½d. per oz. for gold of the same standard, while the exchange may be influenced by several circumstances, within the limits in time in which, and of expense at which, the coin could be brought from one country to the other. The exchange may, therefore, fluctuate, while the price of gold remains stationary.”

“Do you mean by an excess of paper issued, not an excess above what the demand of internal commerce may require, but an excess above that amount to which you think the paper should be reduced, in order to bring the market price of gold down to the Mint price?”

“I do not know any criterion of the internal demand for a medium of circulation, but that amount which would have circulated if the currency had consisted of coin only, or coin and paper convertible into coin.”

121. Mr. Ricardo. *Lords' Committee*, p. 187:—

“The Bank has always the power to regulate the price of bullion by limiting or increasing the quantity of their notes.”

(*Commons' Committee*, p. 133.)

“Do you conceive that the paper currency of this country is now excessive, and depreciated in comparison with gold, and

that the high price of bullion, and low rate of exchange, are the consequences as well as the sign of that depreciation?"

"Yes, I do."

"Then, do you consider the high price of gold to be a certain sign of the depreciation of Bank notes?"

"I consider it to be a certain sign of the depreciation of Bank notes, because I consider the standard of the currency to be bullion, and, whether that bullion be more or less valuable, the paper ought to conform to that value, and would under the system we pursued previously to 1797."

"It appears by the accounts already referred to, that the price of gold in this country in April, 1815, was £5 7s., and in April, 1816, £4 1s., being a difference of from 25 to 30 per cent., such price being always measured in our paper currency; do you know whether, during the same period, any such variation, or any variation in the price of gold, took place in France, or in any other continental country?"

"It appears to me that in France there can be no variation in the price of the metal, which is the standard of the currency, and, with respect to the variations in the other metal, which is not the standard of the currency, it must at all times be confined to the variations which take place in the relative value of the two metals generally in Europe."

"If then it should appear that during the period referred to no variation whatever has taken place in the price of gold in Paris, would you infer from that circumstance that the variation in the price of gold between April, 1815, and April, 1816, arose from the variation in the value of paper, and not of gold?"

"Every fall in the price of the standard metal is immediately corrected in France, by a reduction of the amount of the circulation; if no similar reduction takes place under the same circumstances in our circulation there must necessarily be a redundancy, and an excess of the market above the Mint price of gold; IN A SOUND STATE OF THE CURRENCY THE VALUE OF GOLD MAY VARY BUT ITS PRICE CANNOT."

"The variation you alluded to in your answer to a former question is what you meant by the depreciation of the paper in your answer to a question before put to you?"

"From whatever cause may arise the difference in the value between paper and gold (and I have enumerated several), I always call the paper depreciated when the market price exceeds the Mint price of gold."

"Do you consider the difference between the market and Mint price of gold to be the criterion of the depreciation of Bank notes?"

"Strictly so."

"Do you not consider that coin or bullion are distinguishable from Bank notes in this important respect, that the coin or

bullion, being the medium of universal exchange, operates in the nature of a bill of exchange, whereas the bank note does not possess this quality; must not, therefore, the value of the coin or bullion follow the rate of the exchange, whilst the Bank note cannot be influenced by such an operation?"

"Certainly; a Bank note not payable in specie is confined to our circulation, and cannot make a foreign payment; a Bank note payable in specie is the same thing as coin or bullion."

"May not this distinguishing quality between the Bank note and the bullion explain the difference of value, without its following that the Bank note is depreciated for any purpose of measuring the value of commodities within this country?"

"No, I think it cannot; the term depreciation, I conceive, does not mean a mere diminution in value, *but it means a diminished relative value, or a comparison with something which is a standard.* And, therefore, I think it quite possible that a Bank note may be depreciated, although it should rise in value, if it did not rise in value in a degree equal to the standard, by which only its depreciation is measured."

"You have stated an opinion, that the contraction of issues of paper would at all times restore the price of gold to the Mint price, and render the exchange favourable to the country; supposing the balance of payments of the country to be against us, in what manner would you have them paid?"

"It appears to me that a reduction in the amount of currency may always restore the price of bullion to the Mint price; but I have not said that that will always restore the exchange to par."

122. Mr. Alexander Baring, afterwards Lord Ashburton. *Lords' Committee*, p. 10:—

"Is it your opinion that the exchanges and the price of gold are affected by the increase or diminution of the circulation of the notes of the Bank of England?"

"I can have no doubt of it whatever; I have always considered the price of bullion and the rates of exchange, which, for this purpose, are the same things, dependent on the paper circulation, and liable to be regulated by its contraction or expansion. I do not mean to say that the foreign exchanges, or the price of bullion, would vary always in proportion to any alteration in the amount of the paper of the Bank of England, or even of the paper of the country at large, because there are various circumstances which, at different times, vary the amount of the circulating medium required for the use of every country; and sometimes, for instance, twenty-five millions of Bank paper may be too much, when, at another period, thirty millions may be too little. It is the great defect of a paper currency that it cannot adapt itself to this change of circumstances."

"Are you of opinion that the loans which have been contracted

for in foreign States, particularly in France, since the peace, have had an unfavourable effect upon the exchanges of this country?"

"The circulation of the country being in its present state, payments abroad, from whatever cause arising, must have an effect upon the exchange."

"What do you mean by the present state of the circulation of the country?"

"I mean that if the circulation were in its former state of payment in specie, that no payments abroad would bring the exchanges materially below their par; but with a paper which has no regulator of its value, it is undoubtedly liable to depreciation by foreign payments, as has been amply proven in the course of the last war."

"Were you at Paris at the time of the great crisis of the Bank of Paris?"

"I was; and I believe the information conveyed in the Governor's report to the proprietors in January last, as to the effect of the reduction of their issues upon foreign exchanges, and upon the amount of bullion in their vaults, to be correctly stated. The effect of the reduction of their discounts upon the exchanges, and upon their bullion, seems to me singularly applicable to the present question. Their bullion was reduced, by imprudent issues, from 117 millions of francs to 34 millions of francs, and has returned, by more prudent and cautious measures, to 100 millions of francs, at which it stood ten days ago."

"Are we to understand, then, that, in your judgment, considerable importations of grain in years of unfavourable harvests would have an unfavourable effect upon the exchange?"

"I think it would, in any country having a circulation of paper, not payable on demand, and when there are no means of contracting its amount, so as to perform for the circulation the same office which a sound circulation of specie would do for itself."

"Would it have the same, or any, effect in a country where the circulation was partly of specie and partly of paper, convertible into specie, as before the Bank restriction?"

"I think that no demand, however pressing, and of whatever nature, would make such a fall in the exchanges as would exceed the expense of the transport of coin, combined with the risk of the violation of the law, so long as a law exists against exporting the coin. This opinion, founded, as it is, upon the principle of circulation, is amply confirmed by the uniform experience of this country before the restriction of cash payments, and of every other country with which I have been acquainted. This principle has been put, perhaps, more severely to the test within the last two years in France than in any other instance. France having had a large payment to make abroad, beyond the apparent means of her commerce, and without any equivalent return, and these



payments having produced no derangement whatever of the circulation of that country."

123. Mr. John Ward, general merchant, with much experience in money operations. *Commons' Committee*, p. 239:—

"Is it your opinion that the rate of foreign exchanges, and the market price of gold, are affected by an increase or diminution in the amount of Bank paper?"

"Certainly."

"Do you think it would be in the power of the Bank, by a reduction in the amount of their paper issues, to restore a favourable rate of exchange, and to reduce the market price of gold to the Mint price?"

"That is my opinion."

"Are you of opinion that, under the restriction of cash payments, the excess of the market price above the Mint price of gold is an indication of the paper currency being depreciated, during the restriction of cash payments?"

"Certainly."

"Is the amount of that excess of the market above the Mint price of gold the measure of that depreciation in your opinion?"

"It is."

"You have stated that you consider the paper of the Bank of England to have been depreciated by excessive issue; during how long a period do you consider that depreciation to have existed?"

"I cannot distinctly state for how long a period unless I could compare it with the value of gold."

"About how long?"

"So long as the price of gold bullion has been above the Mint price."

124. The above extracts, which are only a portion of the evidence given by the great majority of the witnesses, are sufficient to shew the extraordinary change which had taken place in the opinion of the commercial world since the Report of the Bullion Committee, with respect to the great question of the connection between the paper currency, the price of bullion, and the foreign exchanges. The old opinions had scarcely a voice in their favour; even Mr. Harman, who had in all previous occasions been the stoutest antagonist of the principles of the Bullion Report, was considerably shaken in his opinion. Notwithstanding, however, that the governor and deputy-governor, and several other directors of the Bank, had given in their adherence to these doctrines, the majority of the court still persisted in the old opinions; and, on the occasion of some questions having been sent for their consideration by the Committee of the House of Commons, took the opportunity of



recording publicly their disapproval of the doctrines which were now in the ascendant. On the 25th March they resolved—

“That this court cannot refrain from adverting to an opinion, strongly insisted upon by some, that the Bank has only to reduce its issues to obtain a favourable turn in the exchanges, and a consequent influx of the precious metals; the court conceives it to be its duty to declare that it is unable to discover any solid foundation for such a sentiment.”

125. The Report of the Lords' Committee contented itself with recording the opinions of the different witnesses upon the great question so long agitated, it pronounced no judgment of its own upon the soundness of the different views. It, however, was very decided in the recommendation to return to the ancient metallic standard as speedily as could be done, with a due regard to the interests of commerce. The Committee of the Commons expressed their opinion that, when the exchanges became unfavourable, and the market price of gold rose above the Mint price, the only mode in which the Bank could have retained the coin in circulation was by contracting their issues. And they said that, however the exchanges might have been affected during the last and preceding year, they had no reason to apprehend the same or any other causes could continue to affect them in such a degree as to preclude the Bank of England, by a constant reference to the exchanges and the price of gold, and, when necessary, by a cautious reduction of their paper currency, from gradually approximating its value to that of gold, and ultimately re-establishing and maintaining it at par. Both Houses agreed in recommending that after the 1st February, 1820, the Bank should be required to deliver gold of standard fineness in quantities of not less than 60 ounces, at £4 1s. per ounce; that after the 1st October, 1820, the rate should be reduced to £3 19s. 6d.; and after the 1st May, 1821, it should be reduced to the Mint price of £3 17s. 10½d. per ounce, that this liability to pay in bullion should continue for not less than two, nor more than three years, from 1st May, 1821, when payments in cash should be resumed. They also expressed their opinion that the great destruction of country bank paper in 1816-17, had been partly instrumental in reducing the price of gold, and making the exchanges favourable during that period. That, from the numerous circumstances affecting the value of Bank of England paper—the varying state of commercial credit and confidence—the fluctuations in the amount of country bank paper, and other reasons, no satisfactory conclusion could be drawn from the mere numerical amount of their issues at any given time.

126. The Report was brought before the Lords on the 21st

May, 1819, when a petition, signed by about 500 merchants, bankers, and others, was presented against it, on the ground that the extensive contraction of the Bank's issues in so short a time, as would be rendered necessary by it, would cause general embarrassment. The directors of the Bank communicated a very strong representation, containing similar views, to Lord Liverpool, which was also laid before the House. Lord Harrowby, however, that evening, brought in the ministerial resolutions, which were framed in accordance with the Report, and the last of which was:—"That it was expedient to repeal all laws prohibiting the melting or exportation of the gold or silver coin of the realm." Lord Lauderdale moved a series of resolutions in opposition, the principal of which was the Mint price of gold should be altered to correspond with the market price.

127. The resolutions were moved in the Lords by Lord Liverpool, in a speech of singular clearness and ability. Every word that he uttered told with crushing effect upon the course of the Government in 1810. He was an entire convert to the principles of the Bullion Report, in their fullest extent. He said that the three chief points in question were, whether—1. It was expedient to return to some fixed standard of value. 2. Whether that standard should be the ancient one. 3. By what means it could be done. That the first point was the most important, because it would be found that all the opposition to the measure was simply a disguised hostility to return to cash payments at all. Many considered that there should be no standard of value; but what civilized country had ever acted upon this principle since the world began? In former times the most disgraceful measures had been resorted to, to depreciate the standard, but even that was not so bad as having *no* standard. No country in the world had ever established a currency without a fixed standard of value; it might be gold, silver, copper, or even iron, but it must be something which had a real value; it could not be paper, which had no real value, but is only a promise of value, and England, the first country for commerce and knowledge of political economy, should not be the first to confer on any body of men, however pure their motives and conduct, the power of making money according to the suggestions of their own interests. Policy, good faith, and common honesty called on them to return to the ancient standard. No doubt some of the public debts were contracted in a depreciated currency, but yet the contract was to pay according to the ancient standard, and they must adhere to that if they meant to act honestly. He ridiculed the idea of the danger or difficulty of doing so. In 1816 gold fell to the Mint price, and, when it was quoted at £3 18s. 6d. in the public lists, it might, in fact, have been bought cheaper, only the Bank determined to be the

only purchaser, and gave that price. Since then it had risen to  $6\frac{1}{2}$  per cent. above the Mint price, but at the time he was speaking it was only 3 per cent. above the standard price. A noble Earl had doubted whether it was in the Bank's power to bring gold to the Mint price by contracting its issues. The question was, no doubt, somewhat obscure, but the Report would show that there was not a single practical man, even among those most hostile to the intended measure, who did not admit that a contraction of the Bank's issues must necessarily have the effect of rendering the exchange favourable to this country, and of lowering the price of bullion. He himself entertained no doubt upon the point. The plan proposed by the resolutions, gave ample time for the Bank to make all necessary preparations without injury to the commercial interests by too sudden a contraction. The subject of the quantity of the circulating medium necessary for commercial transactions was one of the greatest importance; it was one, however, in which it was impossible to fix any nice proportion, and, in his opinion, THE ONLY CRITERION OF A CIRCULATION BEING SUFFICIENT OR EXCESSIVE WAS TO BE FOUND SOLELY IN ITS VALUE WHEN COMPARED WITH THE PRECIOUS METALS. The real value of paper could only be ascertained by its convertibility into specie. If that test was adopted it made little difference what the circulating medium was composed of. In Lancashire it chiefly consisted of bills of exchange, which was found to succeed perfectly in that county. If any country or district was possessed of real and substantial wealth, it would soon find a circulating medium for itself. The measures proposed, in his opinion, would lead to no inconvenience; if any could have arisen, they had been incurred already, and if Parliament would steadily adhere to the course recommended, they would see the ancient standard restored without material distress to any one.

128. Lord Lauderdale made some severe remarks upon the strong speech made by Lord Liverpool in favor of the very doctrines he had been twelve years in controverting. Lord King heartily approved of the resolutions, and especially that the time was fixed by Parliament, when the Bank should resume cash payments, as the public would now have a security beyond the discretion of the Bank directors. The numerical amount of Bank notes could be no guidance for the amount of issues. The only rule which could be given for their regulation was to keep gold at the Mint price. This was the only check on the vicious practice which 22 years' usage had accustomed some to consider as the natural state of the currency of the country.

129. Lord Grenville spoke with great earnestness in favour of the resolutions, and his sentiments deserve most particular

attention, because he was one of the Cabinet who originally proposed the Restriction Act. He now, however, came forward to repeat, in the most emphatic terms, what he had already avowed, that he considered the restriction as one of the greatest calamities under which this suffering country laboured. He had frequently had occasion to lament and deplore the part which he had himself taken on its original proposition, in prolonging it for the term of the then existing war. Having avowed his error in so doing, as became an honest man, at the commencement of the last war, and having foreseen, but too truly, all the misery that followed, he felt great joy that the country could now look forward with certainty to the repeal of that injudicious and unfortunate measure. There was no difference in principle between the excessive issues of the Bank of England and those of Austria, Prussia, and Russia. He was most anxious to place on record his opinion, that the evils of the restriction had far counterbalanced its good, and that future statesmen might know that the opinion that this measure had saved the country was not unanimous. He hoped it would be recorded of him, as his decided conviction, that in proportion to the danger under which the country laboured, was the impolicy and desperate madness of such a measure as they were now considering how to rescind. Whatever temporary advantages might be furnished to individuals from too liberal issues, those very individuals generally suffered tenfold injury. While the Bank was lending money with one hand, with the other it was shaking the foundation of contracts, affecting all prices, involving the country in distress, and individuals in ruin ten times greater than any benefits they could derive from liberal issues. Increased bankruptcies invariably followed increased issues. The miseries of 1816 were the sure consequences of the extravagant issues of the preceding year; the country bank paper, which was not propped up by law like Bank paper, was fearfully depreciated, and had involved the whole kingdom in general desolation. Trade, commerce, agriculture, the classes even most remote from any connection with the paper system, found themselves suddenly consigned to total and inexplicable ruin. The sight of the misery thus caused would fill them with horror. In commerce, as in war, there could be but one sure basis of management, and that was a currency regulated by a standard of metallic value. Not that metal was necessary as *metal*, but as possessing *value*. It was impossible to represent value except by value. For this reason, all civilized countries had adopted a metallic standard. The original names of the divisions of money in all known languages referred to the weight of the metal. It was so among the Hebrews, the Greeks, the Romans, the French, the English. The pound in England, and the livre in France, were originally a pound weight of metal. The



weight of the metal had been diminished in each country in the coins at different periods, but each case of such reduction was a fraud upon the people, and it had always been done in times of discontent and turbulence. It was attempted to be done in the days of Edward VI., but the advisers of the measure were compelled to retrace their steps through fear of an insurrection. It was time, therefore, to return to a fixed measure, and to put an end to a system of variable value, when every one's property was at the mercy of a body of individuals. We must have a currency established on public faith—on public laws. The depreciation of the paper currency had been nearly one-third, and every one who held it had lost to that amount. There was no disposition now in any class to deny this. The Directors of the Bank of England alone refused to admit the principles of the Bullion Report—so wisely and irrefragably established by that great man, the late Mr. Horner—a report, which could not be read without instruction and admiration, for the depth and soundness of its doctrines, and bitter regret for the premature loss of a statesman who was so well calculated to serve and adorn his country. If the Directors would only now believe in the Bullion Report, there might be some hope of them, but as they did not, they were the last persons who should be left to manage the currency at their own discretion. He did not believe in any calculations as to the quantity of circulating medium necessary. It was now time that the connexion between the Government and the Bank of England should be dissolved. It was in direct violation of the principles upon which the Bank was founded. They must revert to the legitimate standard of this country, in respect to its currency. It was not the value of that currency, but the value of the metal by which it was regulated, as paper was regulated by the price of bullion. In the Bullion Report, which hereafter, he did not doubt, would form a STANDARD, CONSTANT AND UNERRING, in the political economy of this country, of whose extraordinary merit he was not aware until lately, this subject was clearly defined. He gave his entire, unlimited, and unqualified approbation to the ministerial resolutions.

130. Such are short outlines of the speeches of Lord Liverpool and Lord Grenville upon this momentous question, which well deserve to be studied at length in the present time, when many of the heresies and fallacies they combated so strongly and convincingly, seem springing up again in the public mind. The resolutions were then put and agreed to without a division.

131. The resolutions in the Commons were introduced by Mr. Peel, on the 24th May, who freely owned that, in consequence of the evidence he had heard, and the discussions upon it, his



opinions had undergone a material change. He acknowledged, without shame or remorse, that his opinions were very different now to what they were when he voted against Mr. Horner's resolution in 1811. Having determined to dismiss from his mind all former impressions, and the memory of the vote he had formerly given, and to give the question his unprejudiced and undivided attention, he had now come to the conclusion that Mr. Horner's resolutions represented the true nature and laws of our monetary system. Every sound writer agreed that the true standard of value consisted of a definite quantity of gold bullion, a certain weight of which, with an impression on it denoting it to be of that certain weight and fineness, constituted the only true, intelligible, and adequate standard of value. No doubt the Bank was perfectly solvent, but did it follow from that, there could be no over issue of its paper? If solvency alone was a sufficient proof that there was no excess of circulation, the theory of Mr. Law was just, and the land, as well as the funds, might be safely converted into a circulating medium. There was, in fact, no test of excess or deficiency, but a comparison with the price of gold. As the Bank had so entirely repudiated the principles of the Bullion Report, they could not be expected to act upon them; it might, therefore, appear necessary to prescribe such a limitation of their issues as would secure the power of the Bank over the foreign exchanges. He himself thought this a very unwise plan, because it depended so much on circumstances, whether or not there was an excess of circulation. *There were occasions when what was called a run on the Bank might be arrested in its injurious consequences by an increase of its issues.* There were other occasions when such a state of things demanded a curtailment. In the year 1797, when a run was made on the Bank, but when the exchanges were favourable, and the price of gold had not risen, it was proved that an extension of issues might, by restoring confidence, have rendered the original restriction unnecessary. On the other hand, if the run was the effect of unfavourable exchanges and the consequent rise in the price of gold, the alarm must be met by a reduction of the issues. *It was, therefore, impossible to prescribe any specific limitation of issues to be brought into operation at any period, however remote.* The quantity of circulation which was demanded in a time of confidence, varied so materially from the amount which a period of despondency required, *that it was an absolute impossibility to fix any circumscribed amount.* He said that the time was come when the connection that existed between the Government and the Bank must be dissolved, and it must revert to its original principle of business. The obstinate opinions of the Directors of the Bank, shewed that they were unfit to be trusted with the management of the pecuniary interests of the British community. The House must resume its powers which

it had abdicated too long. There could be no inconvenience in compelling the Bank to pay in specie at the Mint price. They had done so from 1776 to 1797, and the price of gold never rose above £3 17s. 6d. But it was said that it had since risen to £5 2s., and that the standard was variable. The fact was, we had since then introduced a substitute for gold, and its price was considered in relation to that substitute. Let not the House be led away by any calculation to mistake the PRICE for the VALUE. When people talked of gold rising in *price*, were they prepared to shew that it had risen in *intrinsic value*? Let them not talk of its price in paper, but in any other commodity of a real and fixed value. So far from gold having risen in value, since the last fifty years, it had actually fallen in value, partly from the greater abundance of the metal itself, and partly from the substitutes that were used for it. A very prevalent theory was, that instead of regulating paper by the value of gold—gold should be regulated by the value of paper. This was nothing less than a fraud upon the public creditor. It was vain to think that foreign nations could be imposed upon by such a deception. The only result would be, that after the public creditor had been cheated, the coin would be debased. The only course was, to revert to the ancient standard of the realm, and to beware of arguments, which were not only fraudulent, but would not accomplish their own objects, while they would aggravate present difficulties. Every deviation from the ancient practice would be quoted as a precedent for a more extended departure from that practice. Under future difficulties the conduct of their ancestors would be panegyrised by the advocates of the suspension of cash payments, and conclude because the price of gold had risen still further in its relation to paper, that the principle by analogy ought to be extended. The restoration of the value of our currency had always been a striking political feature in the history of the country, and an object of the most earnest solicitude of our most distinguished statesmen. Three periods were especially memorable for great reforms in the coinage—in the reigns of Edward I., Queen Elizabeth, and William III. These periods must ever be regarded with pride and satisfaction. They were of much greater difficulty than the present. On Queen Elizabeth's accession, the coin was reduced to  $\frac{1}{4}$  of its nominal value. Under Burleigh's advice she resolved to restore the value. Plenty of persons dissuaded her from that idea, alleging the difficulties of the attempt. But Burleigh maintained that those very difficulties should constitute the motives for perseverance, as they must raise and establish the character of the country, and inspire its enemies with respect. The Queen had nobly persevered, and in her monumental inscription, above all her titles to distinction, this one shone preeminent "MONETA IN

JUSTUM VALOREM REDUCTA." He then detailed the restoration of the coinage by William III. The arguments against it in those times were identical with those used against it at the present time. However, fortunately, the firmness of King William and Mr. Montague triumphed over prejudices in theory, misconceptions in reasoning, and the greatest financial and political difficulties. The idea that this country owed its glory and military honours to an inconvertible paper currency was ridiculous; we had abundance of prosperity and military glory before 1797, before we were blessed with an inconvertible paper currency. The true reason of her difference from other States was that she always kept her faith inviolate. It was this that cheered the country under all dangers, and caused her to exult in victory. It was this feeling that carried the country through the dismal voyage she had just accomplished, and now that they had reached the other shore in safety, let them not abandon the great principle which had supported them. Every consideration of policy, good faith, and justice, called upon them to restore the ancient and permanent standard of value. He allowed that he had once entertained views different from those he now held, but he had given his mind candidly to a re-investigation of the whole subject, and he felt himself bound to state honestly, that he was now a convert to the doctrines regarding our currency he had once opposed.

132. The debate that followed was chiefly composed of a strain of congratulation and rejoicing at the course adopted by the Government, and approval of the resolution. Mr. Tierney was averse to compliment Mr. Peel too much, as he was thereby only complimenting the opinions he himself and his friends had been advocating for many years. But, nevertheless, it was a source of sincere pleasure to him to see the maxims he had so long been contending for adopted as true policy by the House, especially as such ample justice had been done to them by Mr. Peel, who now avowed them for the first time. Mr. Ricardo said that, when the directors of the Bank were called individually before the Committee, they fully admitted that the price of gold and the foreign exchanges were affected by the amount of their issues, but, when collected as a court they resolved in direct opposition to such opinions. When they avowed such inconsistent opinions, and after the experience the House had had of their conduct, it would be the highest indiscretion in Parliament not to take the preparations for the resumption of cash payments out of their hands. Mr. Alderman Heygate was almost left alone, to adhere to the opinions of Parliament in 1811; he maintained that no depreciation of the paper did exist at that time, or ever could exist. However, the current of opinion was so strong and unanimous, that, though some unimportant amendments were

brought forward, modifying some details in the resolutions, but not at all denying their general truth, these were all withdrawn, and the resolutions were passed without a dissentient voice, Mr. Canning declaring, amidst loud and general cheering, that it was the unanimous determination of Parliament that the country should return as soon as possible to the ancient standard of value, in the establishment of a metallic currency. The bill passed the Commons with little further remark.

133. In the House of Lords the Marquis of Lansdowne rejoiced at the introduction of the bill, on account of the sound principles of political economy it contained, by recognizing a metallic standard as the only safe foundation for the circulating medium. It recognized the great principles, that the price of gold and the foreign exchanges depended upon the state of the currency. He hoped the country never again would hear the wild theories about the currency, which had been so prevalent, which were very properly stigmatised by the bill before them, every enactment of which declared their falsehood. By acting on those ruinous ideas, the country had been burdened with an overwhelming mass of debt and taxation. The Earl of Liverpool said the bill had met with no opposition, and required no defence. The chief provisions of this Act, Statute 1819, c. 49, were:—

1. "The Acts then in force for restraining cash payments should be continued till the 1st May, 1823, when they were finally to cease."

2. "That, on and after the 1st February, and before the 1st October, 1820, the Bank of England should be bound, on any person presenting an amount of their notes, not less than of the value or price of 60 ounces, to pay them on demand at the rate of £4 1s. per ounce, in standard gold bullion, stamped and assayed at the Mint."

3. "That between the 1st October, 1820, and the 1st May, 1821, it should pay in a similar manner in gold bullion at the rate of £3 19s. 6d. per ounce."

4. "That between the 1st May, 1821, and 1st May, 1823, the rate of the gold bullion should be £3 17s. 10½d. per ounce."

5. "During the first period above mentioned, it might pay in gold bullion, at any rate, less than £4 1s., and not less than £3 19s. 6d. per ounce; in the second period, at any rate, less than £3 19s. 6d., and not less than £3 17s. 10½d., upon giving three days' notice in the "Gazette," and specifying the rate; but, after doing so, they were not to raise it again."

6. "These payments were to be made in bars or ingots of the weight of 60 oz. each, and the Bank might pay any fractional sum less than 40s. above that in the legal silver coin."

7. "The trade in gold bullion and coin was declared entirely free and unrestrained."



134. In conjunction with this Act, a most salutary measure was passed (Statute 1819, c. 76), to put a stop to the evil which the Bank directors themselves alleged had brought about the catastrophe of 1797, viz., the enormous sums the Government had been in the habit of demanding from the Bank by way of advances, without any parliamentary security, which Mr. Pitt had so grossly abused. By this Act, this Bank was forbidden to make any advances of any description, without the express and distinct authority of Parliament for that purpose first had and obtained.

135. Thus, at length, this great act of national good faith was accomplished. The final triumph of these great principles of truth and honesty is a memorable example of the innate power of truth to gain the ultimate victory when allowed the inestimable advantage of free discussion. No one of ordinary intelligence will now venture to deny that the currency was greatly depreciated at the time the Bullion Committee were appointed, and if the coin had been degraded to the value of the paper, it would simply have been a national bankruptcy. An amazing amount of ingenious sophistry was employed, no doubt much of it proceeding from honest though mistaken conviction, a still larger portion of it arising from the supposed interests of commerce, to maintain that Bank notes were not depreciated. The real truth, however, was discovered by Mr. Thornton and Lord King, and published by them, in the pamphlets alluded to above. It was unhesitatingly adopted by the greatest statesmen of that day, as appears by the Report of the Committee of 1804; it was then pronounced more loudly and distinctly, and with greater authority by the Bullion Committee in 1810, but it was ridiculed and condemned by the great majority of the commercial world, whose wild speculations it had a tendency to curb, and rejected by an immense majority in Parliament in 1811. But the labor was not wasted in vain. The seeds of truth were firmly planted in the public mind; the doctrines, thus despised and rejected in 1811, were sifted and discussed by the public during the next eight years, and when the next discussion upon them took place in 1819, they had obtained the irresistible ascendancy in the public mind, so that they were enthusiastically adopted by Parliament without a dissentient voice.

136. The overwhelming preponderance of mercantile opinion in 1819 adhered to the doctrines of the Bullion Report. One body alone obstinately refused to be convinced—the majority of the court of directors of the Bank of England. Six of their directors had given their evidence in favour of the new doctrines; but the court determined, with inveterate pertinacity, to have a last fling at them, and passed the resolution we have



already quoted. It took eight years longer for the light to penetrate the Bank parlor. At length, in 1827, the Bank was at last compelled to strike its colours, and the resolution of 1819 was solemnly expunged from its books.

137. When, as we have already seen, the doctrine of the rise of the market price of bullion, and the fall of the foreign exchanges from a depreciated currency, were so well understood by the merchants and statesmen of 1696-7, and the political economists of the last century, it may be interesting to inquire what was the fallacy that so long imposed upon men of undoubted ability, and who doubtless held their convictions in perfect good faith and honesty? What was the cause of the great degeneracy in sound doctrine between 1696 and 1811, so that it became necessary to argue the question from its very foundations? It was this, that the men of 1696 could see that the coinage did not contain much more than half of its proper weight of bullion. But the men of 1811 failed to see that the Bank note could only preserve its value by maintaining a certain proportion with the metallic currency. That an excess of *quantity* of the notes diminished their value relatively to gold; and this diminution in the value of the promise compared to what it professed to represent, was exactly identical in principle with a debasement of the coinage by alloy, or a depreciation of it from deficiency in weight of bullion. When the Bank note became the measure of value, it was imperatively necessary that they should be able to purchase in the market the weight of bullion they professed to represent. When bullion rose to £5 10s. when paid in Bank notes, they were exactly in the same predicament as the coinage was under William III., when it had lost 25 per cent. of its weight. The diminution in the weight of the coinage was palpable to the senses, the diminution of the value of the "promise to pay" was only perceptible to the eye of reason and intelligence, and long escaped the observation of men who conscientiously disbelieved it.

138. We will now bring this long but important discussion to a close, by observing that the grand principles of the Bullion Report are not what are properly termed matters of *OPINION* at all, but of *DEMONSTRATION*. Persons of the most excellent taste and judgment may entertain the widest differences of opinion on the comparative merits of various poems, or pictures, or pieces of music. There is no absolute standard of truth, which will enable any man to assume the office of an arbiter on any of these subjects; at least, none has yet been discovered. Different poets, artists, and musicians are most in harmony with different mental constitutions, of which there is no unerring standard of excellence. So in politics, it is a pure matter of opinion and

judgment which is the best form of government, and which is most suitable for any particular people. But the principles of monetary science, as laid down in the Bullion Report, are matters of a totally different nature, *they are matters of pure geometrical demonstration*. They are no more matters of opinion, in the proper sense of the expression, than the demonstrations of Euclid are matters of opinion. It is acknowledged that there is an absolute standard of truth in such matters. There are many excellent persons, and of good ability in other respects, whose mental constitution is such that they never can follow out the train of reasoning, which establishes the truth of a certain famous proposition in Euclid. But we never heard of any one writing a pamphlet against the *pons asinorum*. Now, the famous doctrine of the regulation of the paper currency by the price of bullion is demonstrably true, and it is as vain to write pamphlets against it as against Euclid, B. I., prop. 5. When, therefore, a modern author says, "the fundamental error of Mr. Huskisson, and the Bullion Committee, on the subject, consisted in the principles which they laid down as axioms, that the measure of the depreciation of the currency was to be found in the difference between the market and the Mint price of gold;" this sentence is as wise as if one were to say, "the fundamental error of Cocker, and subsequent writers on arithmetic, is the principle which they adopt as an axiom that twenty-one is equal to twenty-one;" and when he says a little further on, "for as bank notes never sank in value compared with specie, whatever party spirit may have affirmed to the contrary," he makes a statement which there is overwhelming evidence to prove to be untrue.

*Table shewing the chief variations in the market price of gold bullion from 1790 to 1819, and the true value of the Bank of England £1 note during the Restriction.*

	Market Price of Gold Bullion.	Real Value of the Bank Note.
January, 1790	£ s. d.	£ s. d.
to	3 17 6	
August 25, 1797		
September 1, 1797		
to	3 17 10½	1 0 0
October 19, 1798		
October 26, 1798		
to	3 17 9	1 0 0
September 13, 1799		
September 20, 1799		
to	No quotation.	
April 6, 1804		
April 13, 1804		
to	4 0 0	0 19 6
October 15, 1805		
October 22, 1805		
to	No quotation.	
October 2, 1810		
October 9, 1810	4 5 0	0 18 4½
February 12, 1811	4 12 0	0 16 11¼
March 26, 1811	4 16 0	0 16 3
October 25, 1811	4 18 0	0 15 11
October 2, 1812	5 7 0	0 14 5
January 22, 1813	5 4 0	0 15 0
August 6, 1813	5 10 0	0 14 2
February, 1814	5 8 0	0 14 4½
April 12, 1814	5 5 0	0 14 9
May 31, 1814	5 3 0	0 15 1½
June 7, 1814	5 0 0	0 15 7½
June 28, 1814	4 10 0	0 17 4
September 20, 1814	4 6 0	0 18 1½
November 15, 1814	4 8 0	0 17 8½
April 4, 1815	5 7 0	0 14 5
June 9, 1815	5 5 0	0 14 10
June 30, 1815	5 0 0	0 15 7½
July 7, 1815	4 14 0	0 16 7½
August 4, 1815	4 10 0	0 17 4
September 15, 1815	4 9 0	0 17 6½
October 13, 1815	4 3 0	0 18 9½
January 2, 1816	4 2 0	0 19 0½
April 9, 1816	4 1 0	0 19 3½
April 23, 1816	4 0 0	0 19 6
July 9, 1816	3 19 0	0 19 8½
October 8, 1816		
to	3 18 6	0 19 10½
April 4, 1817		
April 18, 1817	3 19 0	0 19 8½
July 18, 1817	4 0 0	0 19 6
January, 23, 1818	4 1 0	0 19 3½
February 13, 1818	4 2 6	0 18 11
October 6, 1818	4 2 0	0 19 0½
January 22, 1819	4 3 0	0 18 9½

## CHAPTER IX.

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### FROM THE ACT FOR THE RESUMPTION OF CASH PAYMENTS IN 1819, TO THE BANK ACT OF 1844.

GREAT FALL IN THE PRICES OF AGRICULTURAL PRODUCE IN 1822—RISE OF SPECULATION IN 1824—GREAT MONETARY CRISIS OF 1825—ADOPTION BY THE BANK OF THE PRINCIPLES OF THE BULLION REPORT IN 1827—RENEWAL OF THE CHARTER IN 1833—COMMERCIAL CRISIS IN 1837—MONETARY CRISIS IN 1839—TERMINATION OF THE CHARTER IN 1844.

1. The great Act for the preservation of the national good faith, the restoration of the measure of value, was accomplished amidst universal applause; but, unfortunately, it had no sooner become law, than an unusually severe and long-continued disturbance in the ordinary proportions of supply and demand in a great variety of productions took place. The violent fluctuations in prices, which necessarily followed this great derangement caused much public distress, and afforded an opportunity for the antagonists of the Act of 1819, to acquire such strength as to induce the Government to tamper with the Act, before it came into full effect.

2. The utter prostration of all the great producing interests of the country in 1815-16, had caused such severe distress as to diminish the consuming powers of the people, to an enormous extent. The importations of the great articles of consumption in 1816, were, in most cases, not half what they had been in 1814. In 1817, when the general prosperity was reviving, the shortness of the supply caused a very general and rapid rise in prices of all commodities. The inevitable consequence followed, speculation began to revive again, and was much fostered in 1818, by an expected dearth of provisions. A long-continued drought from May to September, was supposed to have destroyed the greater part of the crops, and, as imported produce was unusually low, the prices of all sorts of farming produce rose to an extravagant height. Enormous importations of wheat, added to the home crop, which turned out considerably better than was expected, caused rather a reduction in the price of that, but all other sorts of farming produce mounted up to a great height, barley being at 63s. 6d., oats at 35s., beans at 76s., and peas at 70s., in December, 1818. The high prices thus held out in this country, caused importations on a scale of enormous magnitude, at the close 1818. After deducting the quantities re-exported, the imports of colonial and foreign produce were more than

double what they were in 1816. Mr. Tooke well remarks that before any great turn in the prices of commodities, there is usually a pause of more or less duration, before it finally declares itself, like the slack water at the turn of the tide. There is a period during which sales are difficult or impracticable, when the prices are at a maximum, the buyer refuses to submit to them; and when they are at a minimum, the seller refuses to submit to them. A struggle of this nature prevailed through the autumn and winter of 1818-19, and just as the Act for the restoration of cash payments passed, the fall in prices was decidedly in progress.\*

3. The usual consequences followed these extravagant importations. Importers, trusting to the prices of 1817, had given orders to the growers, based upon these prices, and, when the crops came to be brought to market, the price had given way. Failures, accordingly, were numerous in 1819, both in England and in America, the necessary consequence of a transition from high prices, caused by scarcity, to low prices, arising from excess of supply. Towards the autumn of that year commercial credit had revived. The great importations of wheat in 1818, somewhat reduced the price in 1819, but it stood at 75s. in August, and the average for the whole year was 72s. This price continued, with a few fluctuations, till August, 1820, and at that time, wheat was still at 72s. A decided and unanswerable proof that the discussions in Parliament, and the Act for the resumption of cash payments, had no effect at all on the price of corn. Although the Bank was permitted to pay its notes in gold, at the rate of £4 1s. per ounce, yet they were actually at par, as the market price of gold fell to £3 17s. 10½d. in August, 1819, and continued at that rate till June, 1822, when it fell to £3 17s. 6d. And, in fact, it must be remembered, that for a great part of 1816-17, the note had been within a few pence of par, and had not varied more than about 5 per cent. from par since that time.

4. The spring of 1820 had been unpropitious, and vegetation backward, until the 18th of June, when some warm and very brilliant weather occurred just at the critical period of the blooming of the wheat. In July some wet weather excited fears for the crop, and the prices advanced to 72s., but the weather became very fine in the beginning of August, and thenceforth continued most propitious during the ripening and gathering of the harvest. The result was a harvest of most extraordinary abundance, and of excellent quality. And even its unprecedented exuberance did not become fully known till two or three years

\* The whole of Mr. Tooke's observations on this great crisis are perfectly invaluable, and must be read at length by every one who wishes to form a fair judgment on the subject.—Vol. II., pp. 60-116.



afterwards, when it was not yet exhausted. The best authorities calculated that the quantity of the crop of 1820 was one-third above the average. In July, 1821, wheat had fallen to 51s. from 72s. in August 1819. May, June, and July, 1821, were cold and wet, and the harvest very late; wheat rose to 62s. in September, but the quantity produced was extremely large, and the quality very bad. In consequence of the enormous unexhausted stock of 1820, wheat fell to 50s. at the end of 1821, and to 42s. in August, 1822. The harvest of 1822 was remarkably good both in quantity and quality, and was got in early, long before the preceding crops had been consumed. In addition to this, the importations from Ireland were on an unprecedented scale. In 1817 corn was obliged to be exported to Ireland, in 1820 and 1821 Ireland exported to England upwards of 4,000,000 quarters of grain of all sorts. The natural and inevitable consequence of this was an immense and ruinous fall in the prices of all agricultural produce. Wheat fell to 38s. at the end of 1822.

5. The accumulation of treasure became so rapid in the vaults of the Bank in 1820, that early in 1821 the directors felt themselves in a position to resume cash payments, and an Act was passed to permit them to do so on the 1st May, 1821, instead of in 1823. By this time the Government had repaid £10,000,000 of the debt it owed to the Bank, which all the witnesses agreed was a necessary preliminary to enable the directors to contract their own issues. The Statute 1821, c. 26, enacted that the Bank might resume payments in gold coin on the 1st May, 1821. That persons offered to be paid in coin should not have the right to demand ingots. That if the Bank did not offer to pay in coin, the right to demand ingots should continue. The last impediments to the export of bullion were swept away. The Bank was bound to exchange their larger notes for any one who demanded it, for £1 notes or gold coin, but they had the option of payment in gold or notes.

6. The extravagant height to which the combined effects of an unusual and long-continued scarcity and the greatly depreciated currency, in which payments were made in 1811 and 1812, had produced the most extravagant speculations in farming. Barren wastes were reclaimed at an enormous expense, which never could have been repaid, except by maintaining corn at famine prices. Rents and debts had advanced in a similar proportion, and all classes of agriculturists, farmers, and landlords, had adjusted their expenditure according to the new scale of prices which they expected would endure. Family settlements and encumbrances were calculated on the same basis. Immediately after the peace, the great fall in the price of all sorts of agricultural produce, both from greater abundance and the

destruction of the rotten country paper currency, threatened all persons connected with the "landed interest" with general ruin, and, after a considerable struggle, the Corn Bill of 1815 was passed, the intended and expected effect of which was to prevent wheat ever falling below 80s. a quarter. The "landed interest" calculated that, with the "cost of production" of which they considered "rent" as a necessary element, wheat could not be grown with a profit at less than 80s. a quarter, and the intention of that Act was to secure that price to agriculturists. Buoyed up with delusive hopes, and firmly believing that the Act had for ever nailed up wheat to 80s. a quarter, the farmers received a fresh stimulus to speculation, and vast sums were laid out in further extending the cultivation of barren wastes. However, the circumstances we have already detailed disappointed all these calculations, and wheat stood at 38s. at the end of 1822 in defiance of the Act which said it ought to be at 80s.

7. The advocates of a national bankruptcy had been in such a small minority in 1819, that they scarcely uttered a word in Parliament, much less attempted a division. When the distress caused by the fall in prices began to pinch some classes in the country, they began to gather strength again, and commenced an attack on the Currency Law on April 9, 1821. This attack proved a complete failure, being rejected by a majority of 141 to 27. As prices continued to fall during that year, the distress continued to increase, and early in 1822, a Committee of the House of Commons was appointed to report upon the subject. They presented their report on the 1st of April; but it did not contain a word imputing the low state of prices to anything connected with the currency. They attributed it to the unprecedented abundance of agricultural produce, and proposed plans for affording the farmers and others relief by temporary advances of Exchequer bills, until the glut in the market had diminished. They recommended that the limit of 80s. should be reduced to 70s., as 80s. represented a higher value at that time than in 1815. In the debate that followed, the first symptoms were manifested of the determination to make an onslaught on the Currency Act of 1819. But Lord Londonderry ridiculed the idea that the currency had anything to do with the question, and said Members had only wasted precious time in bringing it forward. But he declared that he entered his most solemn protest against the purpose of these Members to induce Parliament to commit the most flagrant deviation from sound policy and common honesty—a breach of faith towards the public creditor. Could a British House of Commons sanction such a measure, it would relieve no class of the community; but it would overwhelm all classes with ruin. Were it possible for them to be

dishonest and base enough to listen to a project of national bankruptcy, the result must be most calamitous. If a Parliament could be found so degenerate, and a people so destitute of honour and common honesty, as not to start at the idea of such an abandonment of principle, the most sordid calculation would forbid the adoption of such a measure.

8. The £1 note issues of the country bankers in England had been suppressed by Statute 1777, c. 30; but in 1797 they were again permitted, and, by various Acts of Parliament, this permission was continued till two years after the resumption of cash payments by the Bank of England. By the operation of these several Acts, they must have been withdrawn in 1825. The distress, however, which was attributed by so numerous and powerful a party to the contraction of the currency, was employed to induce Ministers to relax this restriction, and country bankers were permitted to continue their £1 notes till the expiry of the Bank Charter in 1833. (Statute 1822, c. 70.) In order to improve the quality of the country bank notes, the Government attempted to enter into negotiations with the Bank of England to permit joint stock banks to be formed at a distance of 65 miles from London. The Government was satisfied that if joint stock banks on the Scotch system could be formed, it would add much to the stability of public credit. Lord Londonderry pronounced a warm eulogium upon the Scotch banks, and said that it was the wish of the Ministry that a similar system should be introduced into England. The bribe to the Bank of England to consent to this arrangement was an extension of their Charter for ten years. But the negotiation failed.

9. The attacks upon the Act of 1819, thrown out in the discussion of the Agricultural Distress Report, were merely preparatory to a formal onslaught on the Act itself. On the 11th of June, 1822, Mr. Western moved for a Committee to inquire into the effect of the Act upon the general interests of the empire. The burden of his speech was that all the distress the country was then suffering was due to the Act of 1819, and to that only, which, he said, had made a violent contraction in our currency at once. This assertion, which was the main pillar of his argument, is demolished by the simple fact, that the great contraction of the currency, and the restoration of the note to par, took place in 1816. He moreover assumed that the currency had been depreciated ever since the restriction Act in 1797. Mr. Huskisson immediately followed in a speech demolishing the whole of Mr. Western's sophistries, one by one, and drawing a close parallel between the state of the currency in 1696, and at that time; and he concluded by moving the same resolution that Mr. Montague had done in 1696, "That this

House will not alter the standard of gold or silver in fineness, weight, or denomination." After a debate of two nights, in which several Members who supported the motion disavowed all intention of tampering with the standard, Mr. Western's motion was rejected by a majority of 194 to 30, and Mr. Huskisson's amendment agreed to.

10. It was strongly alleged by one party that they were compelled to pay in the restored currency the debts they had contracted in a depreciated one, and they called for what they were pleased to term an "equitable adjustment of contracts." But the argument was futile, as they knew at the time they made their contracts, that Parliament was pledged to return to cash payments within a very short period after the termination of the war. Moreover, they totally left out of consideration, that they had been able to discharge an immense amount of mortgages, burdens, &c., in a depreciated currency, which had been contracted in a good currency. All the mortgages and annuities on landed property which were contracted before the great depreciation of the currency, were paid for some years in a currency 25 per cent. less valuable than at the time of the contract. But while these debtors clamoured so loudly for an "equitable adjustment" of contracts grievous to themselves, they never uttered a whisper indicative of their wish to have an "equitable adjustment" of those contracts where the change was favourable to themselves. The only instance recorded of any person making an "equitable adjustment" against himself, and paying his creditors according to the true value of the Bank note, was Lord King, who incurred so much resentment for his letter in 1811. It is quite evident that such a one-sided "equitable adjustment" as was proposed by this party was nothing else but robbery. Under the double stimulus of famine prices and a depreciated currency, the rents of land had tripled since the beginning of the war, so that properties which were mortgaged before it, might have been comparatively unincumbered at its close. But the unfortunate mortgagees and annuitants were paid in a fixed amount of depreciated currency, so that, when prices rose to meet the depreciation, they were clearly mulcted. But they had no powerful party to advocate an "equitable adjustment" in their favour; and it is quite clear that no "equitable adjustment" could take place, unless all these payments were included in it.

11. There was one perfectly satisfactory argument to shew that the low prices of that year had nothing to do with the act of 1819, namely, that the prices of all sorts of agricultural produce were equally depressed all over the continent of Europe from the same cause. The fluctuations, indeed, on the continent



were much more violent than even in England. Wheat, in France, which had risen higher, fell lower. At Vienna, wheat which was at 114s. in March, 1817, fell in September, 1819, to 19s. 6d.; at Munich, wheat fell from 151s. in September, 1817, to 24s. 5d. in September, 1820. The same phenomena were observed in Italy. A similar fall, but not to so great an extent, took place at Lisbon. What could the Act of 1819 have to do with these places? The speech from the throne, in France, very properly attributed the low prices to the enormous abundance of production.

12. But not only is it an absolutely certain historical fact, that the Act of 1819 had not the remotest connection with the low prices of 1822, but it is proved by the most overwhelming evidence that it caused no *contraction of the currency at all*. Mr. Turner, a director of the Bank states: "With regard to the effect of Mr. Peel's bill on the Bank of England, I can state, from having been in the direction during the last two years, that it has been altogether a dead letter. It has neither accelerated nor retarded the return to cash payments." And Mr. Tooke shews most conclusively that the amount of the currency, so far as it consisted of Bank of England notes and coin, was much larger in 1822 than it had been in 1819. That this Act caused any CONTRACTION of the currency is, therefore, a statement most contrary to the truth. Its only effect was, what Parliament had over and over again solemnly pledged itself to do, to fix a time for the return to cash payments, and such a return to payments in cash would, by its own natural operation, prevent the extravagant issues which the Bank had made during the restriction, which depreciated the note 30 per cent., and robbed every creditor of one-third part of his property. The Act of 1819 merely restored the Bank to its condition before 1797, and it became subject to the same unerring laws of nature as its directors had confessed it felt before the restriction.

13. There is much invidiousness in endeavouring to fasten the responsibility of this Act upon Sir Robert Peel, as if he had had any either of the peculiar merit or blame of passing it through Parliament. The Legislature was solemnly pledged to return to cash payments as soon as the war was over, while he was yet a schoolboy in the junior forms of Harrow. There does not appear to have been any speaker fantastic enough to propose that the Bank should never return to cash payments. The Bank itself, of its own accord, attempted to resume payments in cash in 1817, and would have succeeded in doing so if it had not so perversely rejected the principles of the Bullion Report; and if it had not been owing to circumstances which disturbed its management in 1818, cash payments would have been resumed while Mr.



Peel was still in that unconverted state in which he voted against Mr. Horner's resolutions in 1811. So far was he from converting Parliament that he was himself one of the latest converts, and the Ministry conferred great honour upon him in allowing him, while yet so young, to take such a prominent part, and be the mouth-piece of the unanimous determination of the Legislature.

14. By the beginning of 1823 the very inferior stock of 1821 had been chiefly consumed, and the crop of 1822, being of far superior quality, prices began slowly to rise, and the spring of 1823 proving very backward, prices rose rapidly, so that in June wheat stood at 62s. 5d. These prices, however, tempted the farmers to produce their long reserved stores, and an unusual quantity having thus been brought to market, wheat fell in October to 45s. 5d., but the crop turning out worse than was expected, prices rose a little at the end of the year, but they were still 37 per cent. below the "remunerative" 80s., which Parliament had held out to farmers as the point which should be insured to them. It is a favorite theory with many persons that the rise of prices in 1823 was owing to the extension of country bank issues, in consequence of the Act of 1822 prolonging the term of their existence. Such a supposition, however, is very decisively negated by the evidence of Mr. Burgess, secretary to the committee of country bankers, before the Committee of 1832 (Report, p. 414). He presented returns from 122 country banks, forming a fair evidence of the whole. Assuming that the issues of each bank were 100 in 1818, the issues of the whole were 12,200 in that year, and the following table exhibits their variations up to 1825:—

	£		Difference.	£	s.	d.	
1818	12,200	..					
1819	11,991	..	209 being	1	15	0	per cent. decrease from 1818.
1820	11,487	..	709	5	16	10½	"
1821	11,352	..	848	6	19	0	"
1822	10,778	..	1,422	11	3	1¼	"
1823	10,748	..	1,452	11	18	0¼	"
1824	11,640	..	560	4	11	9	"
1825	12,478	..	278	2	5	6¾	increase

Mr. Tooke also shews that during 1823, while the price of wheat was rising, the prices of most other commodities were falling, from which circumstances he very conclusively pronounces that the idea that the variations of the currency had anything to do with prices in those years to be utterly unfounded.\*

\* If anything were wanting to shew the utter fallacy of the idea that the contraction of the currency had anything to do with the low prices of 1822, we might refer to the present price of wheat. There are many clamours of a contracted currency at present, and yet the price of wheat is nearly 90s. per quarter; in the Edinburgh market it was sold at 104s. a few weeks ago. (December, 1855.)

15. The continued depression of prices of agricultural produce so much below what had been expected, created, no doubt, much distress among those persons who were hampered with obligations they had entered into upon the scale of 1811 and 1812, and several petitions were presented to both Houses of Parliament complaining of it. Mr. Western, not satisfied with the great rebuff he had met with in 1822, when the distress was far more severe, again endeavoured to induce Parliament to disturb the settlement of 1819. He introduced his motion on the 11th June, 1823. It may be as well to take notice of some of the leading fallacies he brought forward, as they are too often repeated even at the present day. After saying that great variations had taken place in the value of the currency during the preceding 30 years, which was unquestionable, he said:—

“It will be admitted that a diminution of value followed the suspension of cash payments by the Bank in 1797; that such diminution continued and increased during the latter years of the war, *and up to the time of Peel’s Bill*; and that Peel’s Bill, whilst it restored the old metallic currency, gave to it the value which it possessed prior to its suspension. The injustice attendant upon an alteration of a currency in any way cannot be questioned a moment. The injury that was done to creditors by the Act of 1797 (the origin of all our difficulties in regard to currency) is not to be doubted, but my position is that, after a period of twenty-two years, the resumption of the old standard could by no means be an act of justice or retribution. A new currency upon a new standard necessarily ceases to be new in any sense of the word at some period, and an old one revived again is, to all intents and purposes, new and productive of all the same effects. Is twenty-two years such a period as shall suffice so to establish a standard as to make recurrence to the antecedent as mischievous as the adoption of a new one? This is the important question; and I answer, most distinctly, yes; and that justice required us to establish and perpetuate that measure of value which had been so long current, as near as the same could be ascertained.”

16. The Marquis of Titchfield supported Mr. Western’s motion, but made some caustic remarks upon Mr. Vansittart, and his famous resolutions of 1811, saying that he might possibly be ridiculed for advancing axioms and evident truth:—

“This latter danger, however, he should make bold to defy, sheltering himself under the fact that, notwithstanding all the discussion this subject had undergone, it might still be heard any day in society, from persons otherwise intelligent, that, in their opinion, to talk of the depreciation of the currency must be nonsense, for that they were unable to comprehend how a pound note at one time could differ from a pound note at

another—that a pound note must be a pound note always—that it was impossible that the same piece of paper, with the same characters marked upon it, should be more valuable at one time than at another; and when, above all, the famous resolution of 1811 was recollected, he thought it would be perfectly excusable for him, even in that assembly, said to be so enlightened, to set out with the mathematical axiom that ‘a part is less than the whole’—an axiom which now that the late Chancellor of the Exchequer was no longer among them, he apprehended no one would be found hardy enough to dispute. In mentioning the name of that extraordinary person, he much lamented his inability to do justice to the merits of so great a master of reasoning and eloquence, who so confounded the philosophers of 1811, by unfolding to his admiring audience that the old favorite axiom of Euclid was nothing but a popular delusion, that in reality a part might easily be equal to the whole; and that, therefore, there was no reason for doubting that the pound note, which required the assistance of eight shillings to procure a guinea, was equal to the pound note, which required the assistance of but a single shilling of precisely the same value with those of which eight had become necessary. That great man, for his singular merits, he supposed, or, perhaps, for their unworthiness of him, had been taken from them, and bestowed upon another assembly, which, not having had the same practice in finance, it was to be hoped he would long continue to enlighten. He could not, however, be said to have finished his course prematurely, for twelve years before he had obtained an imperishable name, by placing triumphantly on the journals of the House of Commons, that astonishing resolution which had deprived Euclid of his ancient and long-acknowledged reputation. He was most anxious to disclaim all personal ill-will towards the late Chancellor of the Exchequer. Indeed, it was impossible he should be under any such impulse, but he would not shrink from confessing that, in a political point of view, he could never hear his name pronounced, much less pronounce it himself, without a feeling something like bitter animosity, because he considered that Minister as the author in great part of the calamities in which the landed interest of the country was involved. He believed that few parts of the financial administration of that period were exempt from much and well-merited censure, but all the other measures were trifling in the scale of mischief compared with that fatal resolution which ministerial influence unfortunately carried in the House of Commons, the effects of which were now helplessly deplored, and which would so long survive the name as well as the administration of those with whom it originated. The mischief of that resolution might be described with perfect justice in a very few words. Its effect was to blind the public to their real situation; thereby both promoting the evil and rendering

the sufferers less capable of guarding against it. It assured the public, in the midst of a great and rapidly-increasing depreciation, that no depreciation existed. The Bank, therefore, went on fearlessly adding to its issues, which, of course, increased the evil by increasing the cause of it, and the landlord went on with the cultivation of poor soils, undertaking expensive improvements, fondly imagining that the additional Bank notes he was receiving were additional riches. The landholder, never suspecting that his dealings were virtually in a lower coin, borrowed fearlessly sums vastly larger than he could have dreamed of, that would have staggered his imagination if he had had a suspicion that wheat could ever be at 39s. a quarter, for, while he was receiving 140s., he took for granted he might safely calculate upon hard times not bringing him lower, perhaps, than 70s. or 80s.; and thus the prudent man, even, was induced to borrow what it was clear he had now no chance of paying without ruin. That ever memorable House of Commons told him what they knew to be false, or ought to have known, that the pound note was of full value, when it was in reality depreciated 30 per cent. He borrowed pound notes worth 13s. and he was called upon to repay pound notes worth 20s."

17. After developing these ideas still further, he said that in currency *quantity* was everything; for, if forty millions of notes were in circulation at one time, and eighty millions at another, while the transactions of the country remained the same, then two notes would be required to do the duty that one had formerly done; and, therefore, the currency would become depreciated; but if transactions doubled, then the same quantity of currency would represent the same amount of transactions, and its value would not be altered. He said:—

"Economy of money was, by contrivances to spare the uses of it, according to the description of his right honorable friend, by substitutions for the precious metals, in the shape of voluntary credit. Every new contrivance of this kind—and every one improved—had that tendency. *When it was considered to how great an extent these contrivances had been practised in the various modes of VERBAL, BOOK, AND CIRCULATING CREDITS, IT WAS EASY TO SEE THAT THE COUNTRY HAD RECEIVED A GREAT ADDITION TO ITS CURRENCY. THIS ADDITION TO THE CURRENCY WOULD, OF COURSE, HAVE THE SAME EFFECT AS IF GOLD HAD BEEN INCREASED FROM THE MINES.*"

Lord Titchfield then pointed out how an excessive quantity of paper caused a depreciation of it, which was exactly the same thing as a depreciation of the coinage from a deficiency of weight; but he afterwards fell into the extraordinary error of saying, "The Bank notes were depreciated, and became, therefore, in the situation of clipped or debased guineas, which state of the circulation prevailed from 1797 to 1819."



18. This allegation of the great depreciation of the paper currency during the whole interval from 1797 to 1819 is the only one that can afford the smallest ground for attack upon the Act of 1819; but we have shewn, by such overwhelming evidence, that such an idea was the greatest delusion that could be conceived. The Bank note sustained no sensible depreciation for several years after the Restriction Act, and it was not till the great mercantile speculations of 1808-9, that it became seriously so. It did not continue longer than five or six years, and rose so nearly to par in 1816-17, that its depreciation was insensible. If, therefore, Parliament, in 1819, had gone back to the depreciated standard of 1813-14, it would have been the most unjustifiable robbery recorded in history. It would have been infinitely worse than the bankruptcy of any continental nation, such as Austria, Russia, or France, because, when they declared themselves bankrupt, their paper was at a hopeless and irredeemable discount, and they had not the remotest prospect of ever bringing it back to par. Their conduct, therefore, was the result of sheer necessity; they were driven to bankruptcy only when they were irretrievably insolvent, but they did not deliberately cheat their creditors *after* their currency was restored to par. The motion was rejected by a majority of 96 to 27, and was the last attempt to tamper with the measure of value.

19. The harvest of 1823 was deficient, both in quality and quantity, and prices rose considerably in the beginning of 1824, old wheat being then at 78s., later in the year, however, they declined; but the harvest of 1824 being also inferior, they rallied again. The Bank had for some years been accumulating treasure to meet the anticipated deficiency of the country issues expected to follow the suppression of the £1 notes. When the unhappy change in the policy of the Government took place, this great amount of bullion was rendered comparatively useless, and the country banks began to extend their issues in 1824, and in 1825 they were beyond what they were in 1818. In January, 1824, the bullion in the Bank amounted to £14,200,000. During the preceding year, an adjustment of rents to meet the altered state of prices had taken place, and the old stocks having been gradually worked off, the energy of the people began to revive. The enormous amount of cash in the Bank, for which there was no immediate use, enabled the Government to carry through a great financial operation, the reduction of the interest upon nearly a quarter of the national debt. The Navy 5 per cents. were reduced to 4 per cent., and the 4 per cent. stock to 3½. This vast operation had a very considerable influence in curtailing the incomes of many persons who could ill afford it, to a very inconvenient extent, and prepared



them to look out for more profitable investments for their money. Notwithstanding the unhappy and severe distress to the agricultural portion of the community, Mr. Tooke says that the trading and manufacturing interests had never before been in a more regular, sound, and satisfactory state, than in the interval from 1821 to 1824. At the close of the Session of 1823, the King congratulated Parliament on the flourishing condition of all branches of our commerce and manufactures, and the gradual abatement of agricultural distress.

20. At the close of 1824 the seeds of the disasters which ensued in the end of 1825 were sown. The Royal speech opened Parliament with the same strain of congratulation as had closed the preceding Session, and the same congratulations were used at the close of the Session of 1824. Towards the end of that year it became visible that in some of the leading articles of consumption the supply was falling short of the demand, which gave rise to a spirit of speculation, and, as in all similar cases, a few early purchases, which were successful, induced extensive imitation; and at the end of 1824, and beginning of 1825, this had amounted to positive infection, numbers of persons being induced to go out of their own line of business to speculate in articles with which they had no concern whatever, but induced by representations of their brokers to do so in the hopes of realizing great and immediate gains.

21. Just at this period occurred one of those events which have so frequently lured the commercial world to their destruction. The long contest between Spain and her South American colonies had now finally terminated in favour of the colonies. We have already noticed the great commercial catastrophe brought about in 1810, by the extravagant speculations on the opening of the Brazils to British trade. Precisely the same course occurred in 1824. The recognition of the independence of the South American States and Mexico opened out a boundless field for speculation, and the consumption of British manufactures; and this spirit of speculation was aggravated to the utmost by the visions of countless wealth which was to be extracted from the gold and silver producing countries, and immense schemes were formed for working the mines with British capital. However, the long struggle for independence had inspired the British people with much sympathy for the juvenile republics, and when they wanted to borrow money to support their public credit, the British were only too eager to lend it. It is alleged that £150,000,000 of British capital was sunk in different ways in Mexico and South America.

22. Although the symptoms of a coming mercantile catas-

trophe were plainly evident in the beginning of 1825, the speech put into the King's mouth declared the utmost gratification at the continuance and the progressive increase of the public prosperity. "There never was a period," it said, "in the history of this country, when all the great interests of the nation were at the same time in so thriving a condition, or when a feeling of content and satisfaction was more widely diffused through all classes of the British people." The speech of Lord Dudley and Ward was exactly in the same strain. After contrasting the sufferings the nation had gone through, during the last 30 years, he said it was his good fortune to ask their lordships to carry to the foot of the throne their unmixed, and, he hoped, their unanimous congratulations, upon a state of prosperity, such as he believed was unequalled in this country, and had never been surpassed in any age or nation. And yet, though the whole debate was in this strain, no sooner was it ended, than the Lord Chancellor called the attention of the House to the dangerous extent to which the mania for joint stock companies had gone, and said he would move for leave to bring in a bill to restrain the system. Within seven weeks after that Lord Lauderdale called the attention of the House to the "fury for joint stock companies which had taken possession of the people," and said that the schemes already subscribed for amounted to £200,000,000.

23. The following extract from the Annual Register of 1824 contains a sufficient description of the rising of the Joint Stock Company mania. After stating that the "mines of Mexico" was a phrase which opened visions of boundless wealth to the imagination, and how the mania spread from foreign enterprises to home ones, it says:—

"In all these speculations, only a small instalment, seldom exceeding 5 per cent., was paid at first, so that a very moderate rise in the price of the shares produced a large profit on the sum actually invested. If, for instance, shares of £100 on which £5 had been paid, rose to a premium of £40, this yielded on every share a profit equal to eight times the amount of the money which had been paid. This possibility of enormous profit, by risking so small a sum, was a bait too tempting to be resisted. All the gambling propensities of human nature were constantly solicited into action, and crowds of individuals of every description—the credulous and the suspicious—the crafty and the bold—the raw and the experienced—the intelligent and the ignorant—princes, nobles, politicians, placemen, patriots, lawyers, physicians, divines, philosophers, poets, intermingled with women of all ranks and degrees—spinsters, wives, and widows, hastening to venture some portion of their property, in schemes of which scarcely anything was known except the name."

As a specimen of the madness of the speculations, we may quote the prices of mining shares. The Anglo-Mexican, on which £10 was paid, were at £43 on December 10th, 1824, on the 11th January, 1825, they were at £150. The Real del Monte, with £70 paid, were at £550 in December, and at £1,350 in January, and others in similar proportions. The prices of most other commodities doubled and tripled.

24. Now, what was the conduct of the Bank of England during this period? The bullion which stood above £14,000,000 in January, 1824, was reduced to £11,600,000, in October, 1824. The exchange on Paris had been falling ever since the close of 1823. The last time it was above par was in June, and since then the fall had been continuous. The decrease in bullion had been steady, uniform, and rapid ever since March. Now, when it was known that immense sums were leaving the country, and the exchange falling lower, what did the Bank do? It *increased* its issues. During the month of October, 1824, they were increased £2,300,000. When every consideration of common sense and prudence, demanded a rapid *contraction*, when the speculative fever was plainly declared, instead of doing what they could to check it, they added fuel to the flames. But the Directors seemed determined to set all the principles of the Bullion Report at defiance; and the drain upon them proceeded with increased severity. In April, 1825, the bullion was diminished by upwards of £4,000,000, and their issues were £3,600,000 higher when they had only £6,650,000 of bullion than when they had £14,000,000.

25. The speculative fever was at its height in the first four months of 1825, when it had spent its force and came to an end in the natural course of things. Vast numbers of persons who had embarked in these wild schemes, with the hope of selling out of them before the inevitable crash came, were now called upon for their subscriptions. Vast quantities of capital having been already absorbed, had the inevitable effect of raising the rate of interest. Successive calls compelled the weaker holders to realize, and, while the calls for ready-money were immediate and pressing, the prospect of returns was distant and uncertain. Accordingly, after May and June, the decline was rapid. The South American loans, and the Mexican mining schemes, proved almost universally total losses. In the meantime, that *slack water*, which Mr. Tooke observes, always precedes a great turn in the tide of prices, took place. The increase of commodities which speculation had caused, could no longer be kept from being realized, prices fell as rapidly as they had risen. The obligations of the speculators now became due, and the sale of the commodities had to be forced to meet them. Universal dis-

credit now succeeded, goods became unsaleable, so that stocks which are usually held in anticipation of demand, were wholly unavailable to meet the pecuniary engagements of the holders. Merchants, who had accepted bills for only half the value of the goods consigned to them, were unable to realize even that half, or even obtain advances, on security of the bills of lading, and even the advances already made, were peremptorily called in. The usury laws, which limited interest to 5 per cent., greatly aggravated the distress; nobody would lend money at 5 per cent., when its real value was so much greater; hence, numbers who would gladly have paid 8 or 10 per cent. interest, were obliged to sell goods at a difference of 30 per cent. for cash, compared with the price for time.

26. The bankers in the country had followed exactly in the steps of the Bank of England. While the fever was raging they had increased their issues and liabilities, by speculative advances on commodities. The persons to whom these advances had been made, had no means of repaying them, but the "promises to pay" the bankers had lent them, still remained in circulation, and must be met. The bankers foresaw the coming storm, and endeavoured to provide funds to meet it. The Bank of England itself had its eyes open to the suicidal career it was following in May, and then endeavoured violently to contract its issues. This sudden change of policy, only aggravated the general feeling of discredit. During the Autumn everything portended the approach of the impending catastrophe. The following table shews the progressive decrease in the bullion in the Bank, during 1824 and 1825:—

1824.	1825.
Jan. 31.....£13,527,850	Jan. 29.....£9,490,420
Feb. 28..... 13,800,390	Feb. 26..... 8,857,730
March 27..... 13,871,280	March 26..... 8,152,340
April 24..... 13,405,550	April 30..... 6,659,780
May 29..... 12,887,840	May 28..... 6,131,300
June 26..... 12,809,140	June 25..... 5,482,040
July 31..... 11,814,720	July 30..... 4,174,830
Aug. 28..... 11,763,550	Aug. 27..... 3,626,570
Sept. 25..... 11,811,500	Sept. 24..... 3,496,690
Oct. 30..... 11,433,430	Oct. 29..... 3,150,360
Nov. 27... .. 11,323,760	Nov. 26... .. 3,012,150
Dec. 24..... 10,721,190	Dec. 31..... 1,260,890

27. The inevitable *contre coup* of the undue expansion of credit in the spring began to press heavily on the country banks in the autumn of 1825. It gradually became severer during the month of November. On the 29th November it was announced



in the London papers that Sir William Elford's—a large bank at Plymouth—had failed, and that was immediately followed by the fall of Wentworth and Co., a great Yorkshire firm. By the 3rd December, the panic had fairly set in, and the whole city was thrown into the most violent state of alarm and consternation. On that day (Saturday) some of the directors were informed that the house of Poole, Thornton, and Co., one of the leading city banking houses, was in difficulties, and at a hurried meeting held on the following day it was decided to place £300,000 at their disposal upon proper security. During that week the utmost attention was paid to the position of that house which fought it through the following week, though it was privately known to the governor that, if the storm did not abate, they must fail on the Monday morning. Instead of abating, however, it became more furious than ever on Monday; and Poole and Co. stopped payment, and the ruin of forty country Banks which were connected with them was expected.

28. The fall of this great banking house was the signal for a general run upon all the London bankers, and three or four more gave way, and spread universal consternation among the country banks, sixty-three of which succumbed to the crisis, though a considerable number paid 20s. in the pound, and eventually resumed business.

29. From Monday, the 12th, to Saturday, the 17th December, was the height of the crisis in London. Mr. Richards, the Deputy-Governor of the Bank at that time, said:—

“On Monday morning the storm began, and till Saturday night it raged with an intensity that it is impossible for me to describe; on the Saturday night it had somewhat abated. The Bank had taken a firm and deliberate resolution to make common cause with the country, as far as their humble efforts would go, and on Saturday night it was my happiness, when I went up to the Cabinet reeling with fatigue, to be able just to call out to my Lord Liverpool, and to the members of His Majesty's Government then present, that all was well; that was, I believe, on the evening of Saturday, the 17th December. Then in the following week things began to get a little more steady, and by the 24th, what with the £1 notes that had gone out and other things, people began to be satisfied, and then it was for the first time in a fortnight, that those who had been busied in that terrible scene could recollect that they had families who had some claim on their attention.”

30. As the crisis was evidently approaching at the end of November, the papers discussed the probable policy of the Bank, and it was generally anticipated that it would continue to



contract its issues, and let the evil work its own cure by the fall of those houses which had been imprudent in their speculations, and this was the course adopted by the Bank, and to which they adhered as matters grew worse, and they were supported in it by public opinion. On the day after Poole and Co. fell another house of equal magnitude fell, Williams, Burgess, and Co. The panic then became universal, and, as the directors thought that they would certainly have to stop payment, they sounded the Government as to a Restriction Act, but the Government absolutely declined it, and it was resolved that the Bank should pay away its last sovereign. The Mint was kept constantly at work day and night, but it could not supply coin with sufficient rapidity, so that it kept continually diminishing. On the Saturday the coin in the Bank vaults scarcely exceeded one million, but, by a happy circumstance, when the Saturday evening came the tide receded, and the directors were able to assure the Ministry that all danger was over.

31. The great pressure had produced the effect which necessarily results from such circumstances. The great increase in the value of money here, had turned the exchanges in favour of the country, the directors expected remittances from Paris, and they fortunately came sooner than was expected. On the Monday following the 19th, about £400,000 came from France, and the demands having sensibly abated, the supplies from the Mint fully equalled the sums drawn out of the Bank,—or rather exceeded them.

32. Mr. Huskisson said afterwards, in the House of Commons, that, during forty-eight hours (Monday and Tuesday, December 12 and 13), it was impossible to convert into money to any extent the best securities of the Government. Persons could not sell Exchequer bills, nor Bank stock, nor East India stock, nor the public funds. Mr. Baring said that men would not part with their money on any terms, nor for any security. The extent to which the distress had reached was melancholy to the last degree. Persons of undoubted wealth and real capital, were seen walking about the streets of London, not knowing whether they should be able to meet their engagements for the next day. By this time, however, the exchanges had decidedly turned in favour of the country, and on the Wednesday, the 14th, the Bank totally changed their policy, and discounted with the utmost profuseness. They made enormous advances on Exchequer bills and securities of all sorts. Mr Harman said :—

“ We lent it by every possible means, and in modes we had never adopted before; we took in stock as security, we purchased Exchequer bills, we made advances on Exchequer bills, we not only discounted outright, but we made advances on deposit of

bills of exchange to an immense amount; in short, by every possible means, consistent with the safety of the Bank, and we were not, on some occasions, over nice; seeing the dreadful state in which the public were, we rendered every assistance in our power."

This audacious policy was crowned with the most complete success, *the panic was stayed almost immediately*. On Friday evening, the 16th, the *Courier* said:—"We are happy to think that the worst is over, though there are still great demands upon the Bank, particularly from the country." The same paper, on the next day, the 17th, said:—"Although public confidence is on the return in the metropolis, and things are resuming their usual course, yet, as might be expected, this has not yet communicated itself to the country." In fact, the London panic was completely allayed in this week by the profuse issue of Bank notes. Between the Wednesday, the 14th, and the Saturday, the 17th, the Bank issued upwards of £5,000,000 of notes!

33. The waves of discredit, however, were propagated through the country, and throughout the following week the demand still continued great from the London bankers for their country correspondents. During the course of it, it came to the remembrance of some of the directors that there was a chest of their £1 notes which had never been used. As soon as this was discovered, it occurred to them that they might be used to stay the panic in the country districts, and the discredit of the country bank notes. Upon communicating this idea to the London bankers, it was eagerly approved of, and the sanction of the Government was asked for the experiment. The Government consented, and the notes were sent off to the country bankers without delay, and produced instantaneous relief. At Norwich, when the Gurneys shewed upon their counter so many feet of Bank notes of such a thickness, it stopped the run in that part of the country. By the 24th December the panic was completely allayed all over the country, and the amount of the £1 notes the Bank issued was under £500,000, and by the beginning of 1826 the credit of the banking world was completely restored.

34. The circumstances of this famous crisis are the most complete and triumphant examples of the unquestionable truth of the principles of the Bullion Report, and of Sir Francis Baring, already quoted in Chapter VII. When the drain of treasure from the Bank was severe and unceasing, and notoriously for exportation, on account of foreign loans, the Bank, with infatuated obstinacy, had increased their issues instead of contracting them, in defiance of the clearest warnings of the Bullion Report. When, after six months' continuance in this

fatal policy, they at last reversed their course, and contracted their issues. In the course of the autumn the drain for the exportation ceased, but continued for internal purposes; the demand for gold was entirely to support the tottering credit of the country bank notes. Now, as the country bankers were only too glad to withdraw their own notes, and substitute gold for them, there was not the slightest danger of an increase of Bank of England notes adding to the general amount of paper currency in the country, but just the reverse; consequently, it was just the precise case in which Sir Francis Baring and the Bullion Committee said that it was the duty of the Bank of England to *extend* its issues to support general credit. There was not the smallest danger that an extension of issues would, under such circumstances, turn the foreign exchanges against the country. The character of the demand was declared in the most unmistakeable manner. On Thursday, the 15th, a meeting of merchants and others took place at the Mansion House, when it was stated that Sir P. Pole & Co. had a surplus of £170,000, after payment of all claims against them, besides large landed property belonging to Sir Peter Pole, and about £100,000, the private property of other members of the firm. Williams and Burgess had enough to pay 40s. in the pound. Now, if the course which was adopted on the Wednesday had been adopted on the Monday, the whole of that terrific crisis would have been saved. Mr. Vincent Stuckey, one of the most eminent country bankers in the kingdom, says:—

“My opinion was that the crisis at that time was brought on by excessive issues; but, when the panic came, country bank paper was brought in for Bank of England, and, therefore, all that was immediately wanted was an EXCHANGE OF PAPER. I stated, in a letter I wrote upon the subject to the Bank on the 14th of December, 1825, that they would not have to increase the sum total of circulation, but that all they would have to do was to exchange A for B; and in my letter I recommended them to issue a million a day, which they did; for, otherwise, most of the Banks in London, as well as the country, must have stopped.”

And, accordingly, they did issue, and all contemporary evidence proves that it was this profuse issue £5,000,000 of paper in a few days that stayed the panic. If they had preserved in the restrictive policy for three days longer, the total and entire destruction of commercial credit would infallibly have ensued. In short, if they had followed the precedents of 1793 and 1797, so strongly condemned by the Bullion Report, all credit would have been destroyed; they followed the principles laid down in the Bullion Report, and the country was saved.

35. When the causes of this terrible calamity came to be

discussed, there were not wanting many who laid the whole blame to the excessive issues of the Bank, as well as the excessive issues of the country banks. But though it is indisputable that the Bank acted on the most unsound principles, in not contracting its issues when the great drain of bullion for exportation was going on, it is a mere delusion for men to attribute the consequences of their own wild and extravagant mania to the Bank of England, or to any bank. The errors of all the banks put together were trivial compared to the outbreaks of speculative insanity which seized upon all classes. It was not the issues of some Bank notes more or less which originated the calamity, but the insatiable thirst for growing suddenly rich, that seized upon so many persons, and led them to embark in the maddest schemes totally out of their line of business. Was it the issue of Bank notes that led a respectable bookselling firm to risk £100,000 on a speculation in hops?

36. The Bank had committed many errors before, as serious as those of 1825, without leading to any such disaster. In fact, it was the nature of the speculations which men had rushed headlong into that must inevitably have brought about a most terrible calamity if there had not been a Bank note in existence. The speculative mania of 1694 took place before the Bank was in existence; the great South Sea bubble mania took place when there were no country banks at all, and no one accused the Bank of England, or the London bankers, of having made too profuse issues of notes then, and the great railway mania of 1845-6 took place after it was supposed that the Act of 1844 had effectually secured the country against the recurrence of similar calamities.

37. The bold policy of the Bank of England in that terrible week, in entire accordance with the principles laid down by Sir Francis Baring and the Bullion Report, not only saved a multitude of commercial houses, both banking and trading, but certainly preserved itself from bankruptcy. Though several banks did succumb, the distress was slight, compared to what it would have been if the Bank had persevered in adhering to the policy of 1797. Many houses, it is true, that were aided by the Bank, were only enabled to stagger on for a short time longer, and subsequently failed when their obligations became due; but delaying their fall even for a short time, till the panic had subsided, was of considerable service.

38. The worthless character of a great portion of the country paper had greatly aggravated the intensity of the calamity; in fact, it began with them, and the great commercial failures did not take place until after the banking panic had subsided. The Government and the Bank, at last learning wisdom from these

repeated convulsions, which seemed to recur periodically, became sensible that it was imperatively necessary to provide a currency of a more solid description for the country, and that the frightful evils of the monopoly of the Bank of England must come to an end.

39. Parliament met on the 3rd of February, 1826, and six paragraphs of the speech from the Throne were occupied with the commercial catastrophe, and it said that part of the remedies to be applied consisted in placing the currency and circulating credit of the country on a more firm foundation. Lord King said that the causes of the calamity were partly to be attributed to the Government, in a greater degree to the country banks, and in a still greater degree to the Bank of England monopoly. There was no period of distress during the last thirty or forty years, in which the conduct of that establishment had not been injurious, and in every case aggravated it. It was a most faulty machine. It was impossible that a Bank so incorporated could do good. If the purpose was to erect an establishment to do mischief, they would erect it on the very principles of the Bank. They would give it a monopoly, remove from it all fear of rivalry, and connect it with the Government. He lamented that the pressure of the country gentlemen and the country bankers had been too powerful to be resisted by the Ministry in 1822, and had forced them to continue the issues of £1 and £2 notes to keep up prices and encourage speculation. The Earl of Liverpool chiefly blamed the excessive issues of the country banks, and said that the small notes must be gradually withdrawn, and a metallic currency substituted. He said that he was perfectly satisfied, and had entertained the conviction for years, that the country had grown too large, that its concerns had become too extensive to allow of the exclusive privilege of the Bank of England. Its privilege had operated in a most extraordinary and, as he thought, unfortunate manner for the country. Any small tradesman, a cheesemonger, a butcher, or a shoemaker, might open a country bank, but a set of persons, with a fortune sufficient to carry on the concern with security, were not permitted to do so.

40. The Ministry took upon themselves to prohibit any more stamps being issued to the country banks for £1 and £2 notes. The Chancellor of the Exchequer said that those notes were to be deprecated as an infringement of the Act 1819, which no man could deny was passed, if ever any Act was, with the unanimous approbation of all the parties of which Parliament was composed: an Act which had been solemnly resolved upon as the only measure which could enable the country to meet any future danger, by placing the circulating medium on a permanent and stable



footing. No man could insinuate that that Act was not the result of the deliberate conviction of almost every individual of every party in that House. He then detailed the continual evil and insecurity of the small notes, and said that he always had regretted, and still regretted, the step taken by Parliament in 1822, which permitted them. The intention of the Government was, therefore, to suppress them as soon as possible in England, and subsequently in Scotland and Ireland. He moved a resolution, that no fresh notes were to be issued by country bankers in England under £5, and that those printed before the 5th of February, 1826, might be issued, re-issued, and circulated until the 5th April, 1829, and no longer.

41. The opinions expressed in Parliament and the country were, of course, most conflicting, as to the causes of this great catastrophe, but the great preponderance of opinion was adverse to the small note issues. Mr. Baring, who defended the country bankers from the accusations levelled against them, said that their small notes were bad as a permanent system, and they ought to be called in. Even although they might sometimes be of almost indispensable use to the country, still, if the misery which had been caused by their use, among the poorer classes, were taken into consideration, it was a sufficient reason why the nuisance should be abated: and it was his opinion that the House had not got rid of this deluge of paper at the time when it had the power to do so, and that it had not resisted, as it ought to have resisted, the importunity of the country bankers. That these small notes should be abolished as soon as practicable.

42. Mr. Huskisson described the frightful nature of the panic during 48 hours (Monday and Tuesday, December 12 and 13), and said that it had been truly observed that the Bank, by its prompt and efficacious assistance, had put an end to the panic, and averted the ruin, which threatened all the banking establishments in London, and, through them, the banking establishments and monied men all over the country. The conduct of the Bank had been most praiseworthy, and had, in a great degree, saved the country from a general convulsion. The Bank, throughout its prompt, efficacious, and public-spirited conduct, had had the countenance, advice, and particular recommendation of the Premier and Chancellor of the Exchequer. He admitted that the commercial distress in Scotland was very great, but that did not prove that the system of Scotch banking did not afford greater securities than the English system, and that it was desirable to introduce it into this country. He then described the wild spirit of speculation that had seized the country, which produced a rise of prices so rapid as had never been equalled. He might mention, as an instance, the price of

nutmegs, which rose in one month from 2s. 6d. to 12s. 6d. a lb., and speculation in other spices caused a corresponding rise in their prices. The mania extended equally to other articles of consumption, merchants, traders, shopkeepers, clerks, and apprentices partook equally of the frenzy of vying with each other in their endeavours to secure a monopoly of each article. And this state of things took its rise, not among the wild, insane, and bedlamite schemers, but among those who were considered the sober, steady merchants and traders of the metropolis. And all this took place at a time when money was rapidly leaving the country. Now, if when it was leaving the country so rapidly, it was still hawked about at a greatly lowered rate of interest, that showed there must be something wrong in the currency. And to what would any sober man say such a state of things must come to at last? The Bank, at last, was obliged to provide for its own safety, by narrowing its issues, which checked the spirit of speculation, and as a necessary result, those country banks which had been most rash and immoderate in aiding these speculations by advances, were ruined. The ruin of these bad and unstable banks had effected even the stability of the most solvent ones. A general panic ensued, and seven or eight hundred country banks had asked for assistance from the Bank of England. She had 700 or 800 drains for gold suddenly opened upon her. Was this a safe or proper condition to leave the country in? Certainly not. It was his opinion, an opinion not hastily formed, but the result of long and anxious observation, that a permanent state of cash payments, and a circulation of one and two-pound notes could not co-exist. If there were in any country a paper and a coin currency of the same denomination, the paper and the coin could not circulate together, the paper would drive out the coin. Let crown notes be made, and a crown piece would never be seen, make half-crown notes, and no half-crowns would remain in circulation. Allow one-pound notes to circulate, and we should never see a sovereign. One of the great evils they were called on to correct was the excessive issue of paper. This had been the cause of the greatest distress, it had caused the ruin of thousands of innocent persons. Nothing but disgrace and danger could attend the deviation from the true principles of currency, which Parliament had solemnly recognised. If they wished to prove the value of a steady unchangeable currency, they had it in the example of France, which had twice been invaded by a foreign army, her capital had been taken, and she had been obliged to pay a large sum to foreign countries for corn, but she had a steady metallic currency, and, however much the great contractors might have suffered, the great body of the people had remained uninjured. This was due to the excellent footing upon which the currency of that country was established. If this measure was adopted,

every country banker would be obliged to have as great a regard to the exchanges as the Bank of England, and be compelled to provide for his own safety, without leaning upon the Bank in times of danger. Now was the time to withdraw these small notes, when the bankers were smarting under the consequences of their over-issues. They had at present a large amount of gold and bank notes; if they allowed the favourable time to pass by, the small notes would soon be issued again. They had now got the gold in their coffers, and now was the time to provide that it should not be exported again. It would be advantageous to the public to have chartered joint stock banks, established under a proper system, with only a limited liability. This would, no doubt, induce many persons, of great fortune and credit, to take shares in them, but the Bank objected to the extension of limited liability, and had stipulated that the Banks of Scotland and Ireland should not have this privilege. Some thought that the currency should be even more purely metallic than was now proposed, and that notes of a higher denomination should be suppressed. For himself, he entirely differed from Mr. Ricardo, as to the true basis of the currency, and he believed that if Mr. Ricardo, ingenious as he was, had been sole Director of the Bank of England, it would before now have stopped payment. He thought Mr. Ricardo's view of the currency quite erroneous.

43. Sir John Newport, as a banker himself, considered the issue of small notes to be most injurious to all connected with them, as affording the most dangerous facilities for extravagant speculation. It had been said that a considerable part of the commerce of the country could not be carried on, if these notes were abolished. He was quite willing to accept that alternative, and abandon a portion of our commerce, rather than continue them. He did not believe that such would be the case. Now was the best time to abolish this pernicious system, when so many of the country bankers had failed.

44. Mr. Secretary Peel was convinced that the root of the evil lay in the monopoly of the Bank of England, and that if in the year 1793 a set of banks had existed in this country on the Scotch system it would have escaped the danger it was then involved in, as well as the calamity which had just occurred. In 1793 upwards of 100 banks had failed. In seven years, from 1810 to 1817, 157 commissions in bankruptcy were issued against country bankers, in the crisis which had just occurred 76 failures had taken place. But, from the different ways of making compositions, etc., the number of failures should probably be estimated at four times the number of the commissions of bankruptcy. What system could be worse, or more prejudicial to every interest in the country, than one which admitted

of such an enormous amount of failures? Contrast what had been the case in Scotland, under a different system. Mr. Gilchrist, a manager of one of the Scotch banks, had been asked by the committee in 1819, how many failures there had been in Scotland within his recollection, and he said there had only been one, that the creditors had been paid 14s. in the pound immediately, and finally the whole of their claims. These facts were a strong presumptive proof that the Scotch System if not quite perfect, was at least far superior to the one existing in England. The present system of country banking was most prejudicial in every point of view. He then described the terrible misery caused by the failure of the country banks. He trusted that institution of Joint Stock Banks would place the currency on a firmer footing. He most sincerely trusted that the great obstacle to the proposed institutions, the want of a charter, would be removed. He hoped the directors of the Bank of England would seriously consider what advantage they would derive from refusing charters to these banks. He himself could not imagine what benefit they would derive from it; they no doubt had the right to prevent such charters being granted, but he hoped they would refrain from exercising their right. He eulogised highly the conduct of the directors during the late crisis; he could not conceive it possible for any body of men to have acted better, or to have exercised more judgment, discretion, and liberality than they had done—of which he hoped they would give a further instance by not opposing the grants of charters to the proposed new banks. He fully concurred with Mr. Huskisson, that it was impossible to maintain coin in circulation if paper of the same denomination were allowed to circulate along with it. Now was the most favourable opportunity of getting rid of the small notes. It would be impolitic and unsafe to wait the moment of returning prosperity, as the country bankers would be more reluctant to agree to it, and more able to oppose it. To stand gazing on the bank in idle expectation, now that the river was passable, would be an irreparable mistake. The ministerial propositions prevailed by a majority of 222 to 39, and a motion to continue the small notes of the Bank of England was rejected by 66 to 7.

45. The chief provisions of the Act (Statute 1826, c. 6) for prohibiting small notes in England, are as follows:—

1. The Act repealing the Act (Statute 1777, c. 30) which prohibited promissory notes and bills under 20s. was repealed, thereby reviving the former Act; but all notes of private bankers stamped before the 5th of February, 1826, or of the Bank of England stamped before the 10th of October, 1826, were exempted from its operation, and were permitted to be issued, re-issued, and negotiated until the 5th of April, 1829.

2. Any person after that date making, issuing, signing, or re-issuing any note or bill under £5, was subject to a penalty of £20.

3. Any person who published, uttered, or negotiated any promissory or other notes, or any negotiable or transferable bill, draft, or undertaking in writing, for the payment of 20s., or above that sum and less than £5, or on which such sum should be unpaid, should forfeit the sum of £20.

4. These penalties were not attached to any person drawing a cheque on his banker for his own use.

5. All promissory notes under £20, made payable to bearer on demand, were to be made payable at the Bank, or places where they were issued; and as many more places as the issuer pleased.

46. When the Government determined on suppressing the small note issues in England, they said that it was their intention to extend the measure in a short time to Scotland and Ireland. However much Scotland may have suffered from commercial overtrading, as every commercial country must occasionally do, no banking panic had ever occurred such as those which had so frequently desolated England. As soon as the ministerial intentions were known in Scotland, a great ferment was excited. Sir Walter Scott published three letters on the subject, under the name of "Malachi Malagrowther," which tended much to fan the public enthusiasm, and such an opposition was organised, that the Ministry were obliged to consent to appoint committees of both Houses on the subject. These committees sat during the spring of 1826, and investigated the whole subject of Scotch banking at great length, which had been very little understood in England before that time; and the result was so eminently favourable to the Scotch banking system, that the Ministry abandoned their intention of attempting to alter it. The evidence and reports of these committees have already been noticed in Chapter VI.

47. The year 1827 is memorable as the era when the principles of the Bullion Report were at length acknowledged to be true, and professedly adopted by the Bank. Mr. William Ward stated in 1832 that there was not a single person in the Bank but who admitted that its issues should be regulated by the foreign exchanges and the bullion market, or disposed to act in opposition to it. That in 1819 the directors had forwarded a resolution to the House of Commons, denying that the exchanges were to be regarded in regulating the issues. Subsequently, however, to that year, opinions became changed, and they found the merits of the case such as they really were. He himself had always been convinced of the truth of Mr. Horner's principle,



and, from his being connected with the exchanges, had many opportunities of observing the practical truth of it. The Bank Directors, however, were not convinced of it, because they found, in practice, that the exchanges did not follow the issues of the Bank. But the truth was, that they neglected to consider the country issues, and it was only in 1819, that they obtained a correct account of the issues of country banks; when that was got, it was found that, taking the Bank and the country issues together, the principle was shown to be quite correct. The observation of these facts had gradually convinced the Directors, and, in 1827, he thought the court ripe for expunging the resolution of 1819, and it had accordingly been done. And in 1832 there was not a single director who disputed its truth.

48. Although the Act of 1775, had forbidden notes under £5 to be issued in England, it did not prohibit the circulation of the Scotch £1 notes in England, and they had always circulated in the districts adjacent to Scotland, and even as far south as York. When the English £1 notes were suppressed, it seemed naturally to follow that the circulation of the Scotch notes in England should be forbidden. But the districts in which they had always circulated, were as unanimous as Scotland itself against the measure. In 1828, the Ministry brought in a bill to restrain the circulation of Scotch Bank notes in England. Sir James Graham presented a petition from the borderers, deprecating, in the most earnest terms, the withdrawal of the Scotch notes to which they had been so long accustomed. For seventy years, they said, they had possessed the advantage it was now sought to deprive them of—the advantage of the Scotch currency. Seven-eighths of the rents of estates were paid in the paper currency of Scotland, and no loss had been sustained in consequence of it. After a debate of two nights, the motion was carried by 154 to 45. The Act (Statute 1828, c. 65) provided that after the 5th of April, 1829, no corporation or person whatever, should publish, utter, negotiate, or transfer in any part of England, any promissory note, draft, engagement, or undertaking in writing, payable to bearer on demand, for less than £5, or upon which less than £5 remained unpaid, which should have been made or issued, or purport to have been made or issued, in Scotland or Ireland, or elsewhere out of England, under a penalty of not less than £5, or more than £20. The same exemption as to cheques as in the former Act.

49. In 1832, during the crisis of the Reform Bill, a run upon the Bank took place, which lasted for about a fortnight; but, as it was merely from political feeling in London, and did not extend into the country, no serious result ensued.

50. The Bank Charter expired at the end of one year's notice, to be given after the 1st August, 1832, and this time the Bank had done no such services to the Government as to be in a position to demand from it a renewal of its monopoly several years before it expired. Moreover, these exclusive privileges, as Lord Liverpool said in 1825, were out of fashion. Many great monopolies were now on the eve of breaking up, and the public mind was more roused and enlightened on the subject of banking, from the discussions caused about the severe distress of 1825. Before taking any steps towards a renewal of the charter, the Government determined to have an inquiry before a Secret Committee of the House of Commons, which was appointed on the 22nd May, 1832, and consisted of the following members:— Lord Althorp, Sir Robert Peel, Lord John Russell, Mr. Goulburn, Sir James Graham, Mr. Herries, Mr. Poulett Thompson, Mr. Courtenay, Colonel Maberley, Sir Henry Parnell, Mr. Vernon Smith, Mr. John Smith, Mr. Roberts, Sir M. W. Ridley, Mr. Attwood, Sir J. Newport, Mr. A. Baring, Mr. Irving, Mr. Warburton, Mr. G. Philips, Lord Morpeth, Mr. Morrison, Mr. Heywood, Lord Ebrington, Sir J. Wrottesley, Mr. Lawley, Mr. Cavendish, Alderman Wood, Mr. B. Carter, Mr. Strutt, Mr. Stanley, Alderman Thompson.

51. The Committee was appointed during the height of the political excitement attending the passing of the Reform Bill, and sat for some months, and did not make any report till the end of the Session. The inquiry was extremely incomplete. Many of the most interesting subjects connected with it were scarcely touched upon. But the close of the Session made them report the evidence to the House so far as it had gone. It was expected that a new committee would have been appointed in the new Parliament to continue the inquiry, but the Government in the meantime made up their minds as to the changes they intended to make in the Bank monopoly, and dispensed with any further inquiry.

52. Although the inquiry was left in a very incomplete state as to many branches of the subject, the evidence given embraced many interesting points. The most important of which were, the rules adopted by the Bank for regulating their issues—the expediency or the contrary of publishing their accounts—the expediency or the contrary of establishing Joint Stock Banks, or of having one or more Banks of Issue in the metropolis—the causes of the panic of 1825, and the action of the Bank during that period—the advantages, or the contrary, of making Bank notes legal tender, and the effects of the usury laws on commerce.

53. The great truths regarding the regulation of a paper

currency which had been approved of by the Bullion Committee were now unanimously recognised by the directors, and Mr. Horsley Palmer, the Governor of the Bank, being asked by what principle, in ordinary times, the Bank was guided in the regulation of its issues, said, that in a period of a full currency, and, consequently, with a par of exchange, the Bank considered it desirable to invest two-thirds of its liabilities of all sorts in interest-bearing securities, and one-third in bullion. The circulation of the country being then regulated by the action of the foreign exchanges, the Bank was extremely desirous to avoid using any active power of regulating the circulation, but to leave that entirely in the hands of the public. The action of the public was fully sufficient to rectify the exchanges without any forced action on the part of the Bank in buying or selling securities. He thought it desirable to keep the securities very nearly at the same amount, because then the public could always act for themselves in returning notes for bullion for exportation when the exchanges were unfavourable, and if there was a great influx of gold, the Bank could always re-assume its proportion by transferring part of the bullion into securities. He considered that the discount of private paper was one of the worst means which the Bank could adopt for regulating its notes, as it tended to produce a very prejudicial extension of their notes. He condemned strongly the practice of the Bank during the restriction with respect to the extensive discounts of mercantile paper at 5 per cent. when the market rate was much higher, which necessarily led to an excessive issue.

54. The great majority of the witnesses were in favour of a publication of the accounts of the Bank, as tending to inspire greater public confidence than the mystery in which they were then enveloped, and also acting as a check upon the directors themselves. Almost all the witnesses were against the establishment of joint stock banks in London, as they would tend to injure the private bankers. Considering the ideas of the age, when class interests were supreme, we need not be surprised at this unanimity of feeling; nor that it rather escaped the attention of the witnesses that it was not the interests of the private bankers, however respectable they were, that was the paramount consideration, *but what was best for the public good*. And still more decidedly were the witnesses opposed, with scarcely an exception, to the establishment of any new joint stock banks of issue in London. There was a very prevalent feeling that Bank of England notes should be made legal tender, as a means of allaying a drain on the country bankers for gold during a panic.

55. It was at this time that we may date the first prominent appearance of the great modern heresy, that bills of exchange

and cheques form no part of the circulating medium or currency. As this unhappy doctrine, however, was much more emphatically pronounced a few years later, we may defer considering it to that period. The committee pronounced no opinion of their own on the various points brought out in the evidence.

56. The harvest of 1832 was unusually abundant, which caused a great depression of the price of all sorts of agricultural produce towards the end of 1832, followed, of course, by "agricultural distress." This was brought before the notice of Parliament in the speech from the throne at the opening of the Session of 1833, and a committee was appointed to inquire into it. This distress afforded the irreconcilable enemies of the Act of 1819 another opportunity of attacking it. Mr. Attwood moved for a committee to inquire how far the present distress was connected with the monetary system. Lord Althorp immediately met the motion by an amendment, that any change in the monetary system which would have the effect of lowering the standard of value was inexpedient, which, after a debate of three nights, was carried by a majority of 304 to 49.

57. On the 31st May, 1833, Lord Althorp moved a series of resolutions for the renewal of the Bank Charter, one of which was, that so long as the Bank was bound to pay its notes in gold, Bank notes should be declared legal tender, except by the Bank itself. Several members wished for further delay to consider of the resolutions, as the Session was nearly at an end; but Sir Robert Peel was decidedly of opinion that the House would be abandoning its duty if it consented to postpone the question. He was of opinion that it was desirable to continue the privileges of the Bank, and that there should be but one bank of issue in the metropolis, in order that it might exercise an undivided control over the issue of paper, *and give facilities to commerce in times of difficulty and alarm*, which it could not give with the same effect if it were subject to the rivalry of another establishment. He resisted, at great length, the proposition for making Bank notes legal tender, as a departure from the principle of the Act of 1819, and the true principles that should govern a paper currency. It was decided, by a majority of 316 to 83, to proceed with the consideration of the resolutions. The plan of making Bank notes legal tender gave rise to much difference of opinion, but was carried by 214 to 156.

58. We have already seen that the public had attempted, at various times, to form rival banking companies to the Bank of England, and in 1709 and 1742, the Bank Acts had been framed to stop up various loop-holes which had been successively discovered. In 1742, the phraseology used had been supposed to

be quite effectual for that purpose. At that time, the custom of giving *notes* payable to bearer on demand to their customers in return for deposits, was considered so essentially the fundamental idea of banking, that to prohibit the giving of these notes was deemed an effectual bar upon carrying on the business of banking. But in process of time—about 1772—the London bankers discontinued issuing notes payable to bearer on demand, and adopted the modern system of cheques. The Act of 1742 was considered to be so effectual a bar upon establishing banking companies in general, that for a long time it escaped public observation, that the change in the method of doing business enabled banking companies to elude the wording of the Act of 1742. In 1796, when, in consequence of the restrictive measures of the Bank of England, much distress was felt in London from the want of a circulating medium, an association of merchants and bankers was formed, for the purpose of providing a circulating medium which should not infringe the privileges of the Bank; the question was considered by them, in what the Bank's privilege of exclusive "banking" did consist, and they determined, "The privilege of exclusive banking enjoyed by the Governor and Company of the Bank of England, as defined by the Acts of Parliament under which they enjoy it, seems to consist in the power of borrowing, owing, or taking up money on their bills or notes payable on demand. About the year 1822, some writers detected this flaw in the monopoly of the Bank, and maintained that a joint stock bank of deposit was no infringement of the Charter, and that such banks might be formed, and carry on a very successful business without issuing notes at all, but by merely following the practice of the London bankers by adopting cheques. Though this idea was much discussed in pamphlets at that period, no practical result ensued.

59. It is somewhat remarkable that the discovery should have been allowed to lie unfruitful for so long a period. When the Government first entered into negotiation with the Bank in 1833, concerning the terms of the renewal of the Charter, they were persuaded, as well as the whole mercantile community, that the monopoly forbade banks of any description whatever, with more than six partners, being formed. In the course of the negotiation, however, this was brought under the notice of the Government, who took the opinion of their law officers on so important a point. The opinion of the Crown lawyers was that the clause did not prohibit joint stock banks of deposit being formed. The directors and proprietors of the Bank were much disturbed at finding this flaw in their monopoly, and requested the Government to have it rectified; but Lord Althorp said that the bargain was that their privileges should not be diminished,



but he would not agree to any extension of them. In order to remove all doubts upon the subject, the Solicitor-General brought up a clause, by way of rider, declaring the right to form such banks. He said that the basis of the contract with the Bank was, that they were to enjoy whatever monopoly they already possessed, but nothing beyond it. He had examined the case with the utmost care, and there was no pretence for saying that such banks were an encroachment upon the monopoly of the Bank. The Bank, as originally founded, was a *bank of issue*, and the monopoly first granted in 1697 must be held to refer only to banks *ejusdem generis*. Such had been the uniform language of all the subsequent Acts. The clause upon which their monopoly rested was strictly confined to the issue of paper money. Banks of deposit were lawful at common law, and it rested with those who said it was forbidden to point out the Act which prohibited them.

60. The chief provisions of the Act were as follows (Statute 1833, c. 98):—

1. The Bank was continued as a Corporation, with such exclusive privilege of banking as was given by the Act, for a certain time, and on certain conditions, during which time no society or company exceeding six persons should make or issue in London, or within sixty-five miles thereof, any bill of exchange or promissory note, or engagement for the payment of money on demand, or upon which any person holding the same may obtain payment on demand. But country bankers might have an agency in London, for the sole purpose of paying such of their notes as might be presented there.

2. For the purpose of removing any doubts that might exist as to what the exclusive privilege of banking which the Bank of England enjoyed consisted in, it was enacted that any body, politic or corporate, or society or company, or partnership, of whatever number they consisted, might carry on the business of banking in London, or within sixty-five miles thereof, provided that they did not borrow, owe, or take up in England any sum or sums of money on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof, during the continuance of the privileges of the Bank of England.

3. All the notes of the Bank of England, payable on demand, which should be issued out of London, should be payable at the place where they were issued.

4. Upon one year's notice, to be given within six months after the expiration of ten years from the 1st day of August, 1834, and repayment of all debts due by Parliament to the Bank, its privileges were to cease and determine at the end of the year's notice.

5. So long as the Bank paid its notes on demand in legal coin,

they were declared to be legal tender of payment, except by the Bank itself, or any of its branches. No notes not made specially payable at any of the branches were liable to be paid there; but the notes issued at all the branches were to be payable in London.

6. Regulations about publishing its accounts, and exemptions of bills and notes not having more than three months to run, from the usury laws—these being altered now, need not be detailed.

7. The public were to pay off one-fourth part of the debt due to the Bank, and the proprietors might reduce the capital stock of the Bank by that sum if they chose.

8. In consideration of these privileges, the Bank was to give up £120,000 a year, from the sum they received for managing the public debt.

61. For several years after the renewal of the Bank Charter the harvests were unusually abundant, which caused all sorts of agricultural produce to be ruinously depressed. Wheat fell continuously through 1834 and 1835, till, in the last week in December, 1835, its price was 36s. the imperial quarter. As all agricultural contracts were framed on the expectation that wheat would not be much less than 70s. the quarter, this long-continued depression produced the most severe distress. At the same time, however, all the manufacturing interests were in a state of unexampled prosperity from the abundance and cheapness of food. The long-continued low price of corn caused less to be sown in 1835, and the spring of 1836 was unfavourable. These causes combined to raise the price of wheat in 1836, and the harvest time being wet and cold, caused the price to rise to 61s. 9d. in the autumn.

62. The state of extraordinary prosperity enjoyed by the commercial interests during 1833-4-5, gave rise to an immense amount of speculation and dabbling in foreign loans, as if people seemed incapable of learning wisdom from the experience of 1825. The unexpected success of the first railway gave rise to a considerable amount of speculation in the formation of railways. An immense extension of the joint stock banking system, economised capital to a great degree, and afforded the means of the most fatal extension of credit. On the 14th August, 1834, Lord Wharncliffe called the attention of the Ministry to the prodigious extension of joint stock banks and their branches, and the insufficient capital they were trading with. The important subject of joint stock banking was brought before the House of Commons in 1836, and a Committee was appointed to inquire into it. The Committee sat during the Session and made two reports, which will be noticed in a subsequent chapter.

This fever of speculation reached its acme in the spring of 1836. Mr. Poulett Thompson, President of the Board of Trade, said in the House of Commons on the 6th of May, 1836:—

“It is impossible not to be struck with the spirit of speculation which now exists in the country, but I believe that there is a great difference in the state of things and what took place in 1825. The spirit of speculation was then turned to foreign adventure of the most extraordinary description; but now speculation is directed to home objects, which, if pushed too far, may be very mischievous, though the consequences may not be quite so mischievous as in 1825. But really, on turning to any newspaper, or any price current, and observing the advertisements of joint stock companies upon every possible subject, however unfit to be carried on in the present state of society, every man must be struck with astonishment at the fever which rages at this moment for these speculations. I felt it my duty some time ago to direct a register to be kept, taking the names merely from the London and a few country newspapers, of the different joint stock companies, and of the nominal amount of capital proposed to be embarked in them. The nominal capital to be raised by subscription amounts to nearly £200,000,000 and the number of companies to between 300 and 400. \* \* \* \* The greater part of these companies are got up by speculators, for the purpose of selling their shares. They bring up their shares to a premium, and then sell them, leaving the unfortunate purchasers, who are foolish enough to vest their money in them, to shift for themselves. I have seen also, with great regret, the extent to which joint stock banks have sprung up in different parts of the country. I believe, indeed, that great good has arisen from joint stock banks, but the observations I have made with regard to other companies, are equally applicable to many of the joint stock banks that are springing up in different parts of the country, and the existence of which can only be attended with mischief.”

63. We have seen, that since the Bank of England had adopted the principles of the Bullion Report in 1827, the method they adopted of carrying them into effect, was to keep their “securities” as nearly as possible even, and to keep their bullion and cash equal to one-half the “securities;” the bullion, cash, and securities being together equal to their “liabilities.” Having got the Bank into this position while the exchanges were at par, to throw any action either of increase or decrease of their issues of notes entirely upon the public, either by means of the foreign exchanges, or by an internal extra demand for gold. The Bank was got into this normal condition in October, 1833, when its “liabilities,” *i. e.*, the issues and the deposits, were £32,900,000, the “securities”

were £24,200,000 and the bullion £10,900,000. Some transactions with the East India Company and speculation in South American stocks occurred to derange these proportions in 1834, and caused an export of specie; but in 1835, the foreign exchanges became favourable and the drain was arrested. But in the meantime the Bank had totally lost all power of preserving the proportion between the bullion, securities, and liabilities it had professed to adhere to. The following table, taken at intervals, will exhibit this very clearly:—

Liabilities.			
1 Oct., 1833,	£30,937,000...	{	Securities, £22,640,000
			Bullion, £10,527,000
11 Mar., 1834,	£31,372,000...	{	Securities, £24,777,000
			Bullion, £8,901,000
15 July, 1834,	£37,554,000...	{	Securities, £31,735,000
			Bullion, £8,298,000
9 Sept., 1834,	£31,058,000...	{	Securities, £26,643,000
			Bullion, £7,010,000
13 Jan., 1825,	£33,071,000...	{	Securities, £29,165,000
			Bullion, £6,608,000
5 May, 1835,	£29,417,000...	{	Securities, £26,179,000
			Bullion, £5,951,000

This was the lowest point which the amount of bullion reached, and the drain was arrested. The above table shews how totally deranged the proportions were to what the directors considered to be a proper position for the Bank. From that time bullion continued to flow in, till, in March, 1836, it slightly exceeded eight millions; but, even then, the securities were three times the bullion, instead of twice, as they ought to have been.

64. The amount of bullion in the Bank was at its height in March, 1836, and then began steadily to decline again; in the middle of July, it had fallen below six millions, when the Bank thought it was necessary to endeavour to stop it, and it raised the rate of discount to  $4\frac{1}{2}$  per cent. This had no effect, however, in stopping the demand for discount. In September the bullion barely exceeded five millions, and the Bank raised the rate of discount to 5 per cent. Now the bubbles blown in the preceding year and spring of 1836 were fast bursting on all hands.

65. The drain on the coffers of the Bank proceeded at a rapid rate, both from external and internal causes. President Jackson had determined that the Charter of the National Bank of the United States, which expired in 1836, should not be renewed, and that the currency of that country should be placed on a

sounder footing than it had hitherto been, by forming a sound metallic basis. Operations to effect this purpose soon commenced. Immense quantities of American securities of all sorts were imported into England, and negotiated for the purpose of remitting the specie to America. The improperly low rate of discount in this country, favoured by the inordinate multiplication of Banks, enabled a great quantity of these securities of various descriptions to be realized in England, and the cash was remitted to America.

66. The joint stock banks had been blowing the bubble of credit to the utmost tenuity, by re-discounting most of the bills which they discounted. This practice largely increases the proportion of paper currency compared to the metallic basis, and, of course, adds to any peril in times of discredit. The Bank of England at length, but too tardily, as has almost invariably been the case, awoke to the impending danger, and determined to strike a blow at the distended state of credit. It not only raised the rate of discount to 5 per cent. in August, but absolutely refused to discount any bills indorsed by any joint stock bank of issue. This was a great blow at the great amount of American securities afloat in the country, as most of those bills had been purchased by the joint stock banks, and re-issued with their indorsements upon them.

67. In the Autumn of 1836, the symptoms of the coming storm were very apparent, especially in Ireland. One very large joint stock bank, the Agricultural and Commercial, was known to be in difficulties early in the autumn, and it made several applications to the other joint stock banks in Ireland, and England, and Scotland, for assistance, which they all refused. It also made a call upon its shareholders, which was not responded to. The other Irish banks, foreseeing a stoppage of the Agricultural and Commercial, had been laying in a stock of gold, to meet the run which would necessarily follow the failure of a bank with so many ramifications. The sum in gold which the Irish banks laid in, to provide for the run, was estimated to be not less than £2,000,000, all of which came from the bank of England. Much of this was required on account of the extraordinary differences of opinion that were given by the most eminent Irish counsel, as to whether the Bank of England notes were legal tender in Ireland. Three very eminent lawyers held that they were legal tender, and three equally eminent held that they were not. The Bank of Ireland itself thought they were not, and was still less inclined to make the experiment when there was such a difference of opinion among the lawyers. The other banks followed the example of the Bank of Ireland, and provided gold.



68. The catastrophe that had been foreseen took place on the 14th of November, when the Agricultural and Commercial Bank stopped payment, which was immediately followed by a general run upon all the banks in Ireland; but it was well met, from the care which had been previously taken to provide specie. So great was the state of discredit, that even Bank of England notes were at a heavy discount in Dublin. The Bank of Ireland would only take them in very small quantities from their customers, at a discount of 2s. 6d. each. During all this time, the diminution of bullion in the Bank of England was going on rapidly. At the beginning of October, it had £5,035,000 in bullion, to meet £29,869,000 of liabilities; at the end of November its liabilities were £30,941,000, and its bullion £3,640,000. During December its bullion slightly increased, and in January diminished again. In November the Northern and Central Bank, with its head office in Manchester, and thirty-nine branches in the manufacturing districts, became seriously embarrassed, and applied to the Bank of England for assistance, which the Bank at first refused; but, upon consulting the leading bankers in London, their opinion was that the stoppage of so extensive a concern in the manufacturing districts would very probably bring on a general panic. The Bank, therefore, determined to advance the sum of £500,000, to enable it to meet its engagements, which, upon subsequently discovering that these were much more extensive than had at first been represented, was further increased to the sum of £1,370,000. Early in January, a London banking house applied for assistance to the Bank, and, on the other London bankers giving their guarantee to the Bank of England, it made advances sufficient to enable that house to meet its engagements. The difficulties attending the American houses, both in London and Liverpool, became now so pressing, that they also were obliged to apply to the Bank. Persons were appointed to look into their affairs, who represented that, if assistance were given them to meet their outstanding engagements, they would ultimately prove solvent. As an additional reason for granting this assistance, it was stated that if these American houses were permitted to stop payment, their concerns were so vast, and so extended throughout the north of England, that a general destruction of credit would ensue. After full consideration, the Bank determined to attempt to carry these houses through their embarrassments, and for this purpose, it advanced the enormous sum of £6,000,000. This great operation was, however, successful, though the final liquidation of the account was retarded by the great prostration of American credit in 1839. The advances made to the banking interests in England were all repaid, principal and interest, with one very trifling exception. The Bank thus followed, for a second time, the principles laid down by the Bullion Report and there can be

no doubt averted a calamity only second in magnitude to the catastrophe of 1825.

69. The assistance of the Bank was only intended to be of a temporary nature, to give time for the gradual withdrawal of the great mass of unsound paper from circulation. This having been effected to a large extent, the result followed which always has been the case, and always must be the case—a great influx of gold, to fill the vacuum caused by the great annihilation of this paper currency. During the whole of 1837 bullion rapidly flowed into the Bank; and in December it reached the sum of ten millions and a half. The position of the Bank on the 13th of March, 1838, was as follows:—

Liabilities.	
£31,573,000	{ Securities . . . . £21,046,000
	{ Bullion . . . . . £10,527,000

Thus, after a long period of nearly five years, the Bank was at length brought back again into what the directors had laid down for themselves as the normal position; and it enabled credit to pass through a crisis which would have been tenfold more severe if it had not been met by that “judicious increase of accommodation” which the Bullion Report declared was the proper remedy for a temporary failure of credit.

70. From 1832 to 1837 there had been a series of seasons of remarkable abundance. For several years a series followed of extreme scarcity. The crop of 1838, was the worst that had been known since 1816; that of 1839 was scarcely, if at all, better. This great deficiency rendered it necessary to import foreign corn to the value of £10,000,000, a considerable portion of this required to be remitted in specie. But, just at this period, a number of other concurrent causes happened to create a great demand for gold for foreign countries. During the preceding years America, France, and Belgium, had carried the extension of paper credit to most extravagant lengths. In America, the fatal system of issuing Bank notes upon “property” and “securities” had been carried to a length almost worthy of Law. In France and Belgium joint stock banks had been extensively formed. This great extension of paper currency had the very same effect as the over-issue of paper had in England; it drove bullion out of these countries, and was one of the causes which, together with the fortunate destruction of the extravagant paper credit in England in 1837, caused such an influx of gold in this country up to March, 1838. But in this latter year these bubbles burst. In the autumn of 1838 the Bank of Belgium failed, and a severe run upon the bank at Paris took place. This revulsion of credit, and extinction of paper issues in those countries, caused a cur-

rent of bullion to set in towards them which came from the Bank of England.

71. In the beginning of 1838, when the bullion in the Bank had been rapidly increasing for several months, the commercial world thought it was time for the Bank to make use of the treasure in its vaults. It accordingly reduced the rate of discount from 5 to 4 per cent., and was induced to send over one million of sovereigns to America, the exchanges being favourable to that country in consequence of the destruction of paper, to assist the American banks to resume payments in cash.

72. The bullion in the Bank kept a pretty even amount till December, 1838. On the 18th of that month the liabilities were £28,120,000, the securities £20,776,000, and the bullion £9,794,000. From this date a rapid and steady drain set in, which continued with unabated severity till October, 1839. When the Bank lowered its rate of discount to 4 per cent. in February, 1838, the market rate had fallen still lower, and in summer was about 3 per cent. From that time forward it began to rise, and at the end of the autumn was level with the Bank. While everything was symptomatic of an impending drain of bullion, the Bank on the 29th of November, suddenly lowered its rate to  $3\frac{1}{2}$  per cent. for advances upon bills of exchange, East India bonds, Exchequer bills, and other approved securities. The market rate of interest was now decidedly higher than that of the Bank, and the consequence was an immediate pressure for accommodation on the Bank. The securities which, in December, 1838, were £19,536,000, mounted up in January, 1839, to £27,594,000, and the bullion fell from £9,522,000 to £8,826,000. The following table will exhibit clearly the progressive diminution of bullion:—

	Liabilities.	Securities.	Bullion.
18 Dec. 1838	£28,120,000	£20,776,000	£9,794,000
1 Jan. 1839	£28,856,000	£22,377,000	£9,048,000
15 Jan. „	£30,305,000	£24,529,000	£8,336,000
12 Feb. „	£26,939,000	£22,628,000	£7,047,000
12 March „	£26,088,009	£22,143,000	£6,580,000
9 April „	£29,039,000	£22,173,000	£5,213,000
30 April „	£26,475,000	£24,536,000	£4,455,000
14 May „	£25,711,000	£24,098,000	£4,117,000

73. Up to this time the Bank seemed to have been struck with actual paralysis. Notwithstanding the continuous rise in the market rate of interest, and the unmistakeable drain of bullion that had set in, they, on the 28th February, issued a notice continuing the same rates on the same securities as in the previous November. And it was not until the 16th May that they sud-

denly raised it to 6 per cent. The above figures show how completely the directors had belied their own principles of keeping their bullion at one-third of the liabilities. The market rate had advanced considerably more rapidly, so that the Bank was yet below it. The drain still continued. On the 28th May the bullion stood at £3,910,000, and the liabilities upwards of twenty four millions and a half; but the Directors seemed so utterly blind that, on the 30th May, the time of shutting the books for the dividends, they still offered advances at 5 per cent. till the 23rd July on the same securities as have been last mentioned. However, on the 20th June, they at last became alarmed, and issued notices that the rate of discount would be  $5\frac{1}{2}$  and no securities would be received except bills of exchange.

74. On the 16th July the liabilities were £28,860,000, the securities £28,846,000, and the bullion £2,987,000. The directors at last awoke to the fact that the Bank was rapidly drifting into bankruptcy. On the 13th July they gave notice that they would be ready to receive tenders for the purchases of some terminable annuities, but the minimum price they fixed was so high that no sale took place.

75. Besides raising the rate of discount in May, the Bank sold public securities to the amount of £760,000, and it authorized bills upon Paris to be drawn on its account to the amount of £600,000. These measures had the effect for a short time of arresting the drain. But when these bills came to maturity the Bank was in no better position to meet them, and it then became necessary to create a larger credit in Paris to meet the first. The position of the Bank was, of course, well known to all the foreign dealers in exchange, and in June it was generally expected abroad that the Bank could not maintain payments in specie. In consequence of this, all long-dated bills upon this country were sent over for immediate realization, and the values withdrawn as speedily as possible. To counteract this drain, as well as to meet the payments of the first credit which had been created on behalf of the Bank, it was obliged, in July, to organize a measure of a much larger nature. Messrs. Baring entered into an agreement with twelve of the leading bankers in Paris, to draw bills upon them to the amount of upwards of £2,000,000; and as each of them had only a fixed credit at the Bank of France, that Bank agreed to honor their acceptances in case they should be presented there and exceed their usual limits. An operation of a similar nature to the amount of £900,000 was organized with Hamburg. As soon as any bill was drawn on account of one of these operations, the Bank transferred an equal amount of the annuities it had offered for sale in July to two trustees, one for the drawers and the other for the acceptor.



Out of this second credit the bills which fell due from the creation of the first credit were paid. This measure had the effect of gradually arresting the drain of bullion, which reached its lowest point in the week ending the 2nd September, 1839, when it was reduced to £2,406,000. From that time it began slowly to increase; and in the last week of the year it stood at £4,532,000, the liabilities being £23,864,000, and the securities £22,098,000. The operations ensuing from this foreign credit extended over nine months, from July, 1839, to April, 1840, and the highest amount operated upon was in November, 1839, when it was £2,900,000.

76. The figures we have quoted, shewing the proportions between the bullion and the liabilities of the Bank, are sufficient to shew, either that there was some natural impossibility in adhering to the rule the directors had laid down for their guidance in 1832, or that they had not sufficient firmness to contract their securities in time of pressure to maintain it. The flagrant disproportion which these figures had assumed, which would scarcely be safe in an ordinary banking house, but which were to the last degree perilous in the Bank of England, which was known to be the last resource of every bank in the kingdom in times of difficulty turned the attention of writers to devise some plan, by which if possible, the Bank should be compelled to maintain the proper proportions between bullion and liabilities. Colonel Torrens appears to have been the originator of the idea, which was eventually adopted, of dividing the Bank into two distinct departments, independent of each other; one for the purpose of issuing a regulated amount of notes, and the other for carrying on the business of banking. This plan was first started in 1837, and was much canvassed and discussed by several eminent writers on the subject, such as Mr. Tooke, Mr. Norman, and others; and we shall see was afterwards one of the most prominent features in Sir Robert Peel's Act of 1844, and we shall reserve to its proper place the account of the plan which was ultimately adopted. The great commercial and monetary crisis the country had passed through, within the few preceding years, attracted much public attention, and several petitions were presented to Parliament; and in March, 1840, the Government determined to institute an inquiry into the whole system of paper issues. On the 10th of that month the Chancellor of the Exchequer moved for a Committee for that purpose. He reminded the House that the Bank Charter would terminate in 1844, and he thought it expedient that they should not postpone inquiry into the subject till the last moment. That whatever might be the difference of opinion among the most intelligent men, as to what part of the difficulties they had gone through were to be attributed to the Bank of England, or other banks,



still they were very strongly of opinion that the present system required revision and alteration. Leaving out of consideration former transactions, the difficulties and embarrassments which the country had gone through, within the last few years, had led the most important bodies, and the largest of the manufacturing towns, to make complaints—in calm and temperate language—and to express an anxiety that the House should institute an investigation into their complaints, and endeavour to provide adequate remedies. The chief points of interest connected with the report and evidence are—

1. That the principle propounded in 1832 for the management of the Bank, for the purpose of conforming with the principles of the Bullion Report, was totally condemned.

2. The great modern heresy, that bills of exchange form no part of the circulating medium, or currency, which was first asserted before a Parliamentary Committee in 1832, was now maintained by the great majority of the commercial and banking witnesses.

3. This seem to have been the first adoption by mercantile men of the theory, which is the reigning banking fallacy of the present day, which is now known by the name of the “currency principle.” The principle shortly stated is this:—*That when Bank notes are permitted to be issued, the number in circulation should always be exactly equal to the coin which would be in circulation if they did not exist.* The advocates of this principle maintain that it is the only true mode of regulating a paper currency, and preserving the paper of equal value with the gold coin. This theory sounds remarkably specious and plausible, and, from the eminence of the persons who have been converted to it, has acquired much importance. Nevertheless, we affirm that there never was a greater delusion palmed off upon the credulity of mankind, and that it never could have emanated from or be believed in by any one who had the slightest knowledge of banking accounts.

77. Nothing can be more wearisome than to read through the enormous mass of heterogeneous questions heaped upon one another, without aim or drift, tending to no result, and capable of producing none. Nothing can be more humiliating than the contrast between the Bullion Committee of 1810 and the Committee of 1840. The Bullion Committee were masters of the science; they knew how to govern the direction of the inquiry, to cross-examine the witnesses, and make them expose their own fallacies, by involving them in contradictions and inconsistencies. And, when the witnesses had given their opinions, the Committee were able to judge and decide upon the value of the testimony, and the result was the complete demolition of the opinions of the great majority of the

witnesses. But, in the Committee of 1840, the want of a presiding mind is painfully conspicuous. They were totally destitute of any knowledge of the principles of the science of banking; and after having protracted the inquiry through two Sessions, they were obliged to come to the humiliating confession of their own incompetence to frame a report on the evidence given, and to suggest to Parliament the expediency of appointing a commission for that purpose!

78. From 1838 there ensued a dismal series of four bad harvests in succession, which were attended with much suffering to the people; high prices of corn, and, as a natural consequence, large importations of foreign corn, and a very low amount of bullion in the Bank. In fact, the alleged rule of 1832 was a complete dead letter, and it was not till the 27th of August, 1842, that these proportions were again attained, when the liabilities stood at £29,022,000, and the bullion at £9,729,000. The crops of 1842-3-4 were prodigiously abundant—the latter more so than any for ten years preceding. The consequences of this, as well as other circumstances which happened at that time to economize the capital of the country, produced a cycle of years of great apparent prosperity, but which ended in the great revulsion of 1847. This latter part is beyond the limits of this Chapter. The bullion in the Bank continued steadily and rapidly to accumulate until, in December, 1843, it reached a higher limit than it had ever done before, being £14,982,000, and continued to increase after that until the passing of the Act of 1844.

## CHAPTER X.

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### FROM THE BANK ACT OF 1844, TO THE PRESENT TIME.

VIEWS OF SIR ROBERT PEELE REGARDING THE CURRENCY, AS EXPRESSED IN HIS SPEECH IN BRINGING FORWARD THE BANK ACT OF 1844—ANALYSIS OF THE ACT—MONETARY PRESSURE IN APRIL, 1847—MONETARY PANIC IN OCTOBER, 1847—DRAIN OF BULLION IN OCTOBER, 1855—THE GREAT CRISIS IN NOVEMBER, 1857—THE GREAT CRISIS IN MAY, 1866.

1. On the 6th May, 1844, Sir Robert Peel moved a resolution of the House, that it was expedient to continue for a limited time certain of the privileges then enjoyed by the Bank of England, subject to any conditions that might be passed by any Act for that purpose. In bringing this resolution forward, he gave a preliminary sketch of the evils of the paper currency as it then stood, and the methods he proposed for placing it on a sounder footing. After dwelling on the importance of a metallic standard, and exposing the absurdity of the theories which were so prevalent during the Restriction Act, and the advantage of having a single standard of value, he addressed himself to the more immediate subject for consideration—the state of the paper circulation of the country, and the principles which ought to regulate it:—"I must state, at the outset, that, in using the word money, I mean to designate by that word the coin of the realm, and promissory notes payable to bearer on demand. In using the words paper currency, I mean only such promissory notes. I do not include in these terms bills of exchange, or drafts on bankers, or other forms of paper credit. There is a natural distinction, in my opinion, between the character of a promissory note payable to bearer on demand, and other forms of paper credit, and between the effects which they respectively produce upon the price of commodities, and upon the exchanges. The one answers all the purposes of money, passes from hand to hand without indorsement, without examination, if there be no suspicion of forgery; and it is, in fact, what its designations imply it to be, currency, or circulating medium. \* \* \*

I think experience shews that the paper currency, that is, the promissory notes payable to bearer on demand, stands in a certain relation to the gold coin and the foreign exchange, in which other forms of paper credit do not stand. There are striking examples of this, adduced in the Report of the Bullion Com-

mittee of 1810, in the case both of the Bank of England and of the Irish and Scotch Banks. In the case of the Bank of England, shortly after its establishment there was a material depreciation of paper in consequence of its excessive issue. The notes of the Bank of England were at a discount of 17 per cent. After trying various expedients, it was at length determined to reduce the amount of Bank notes outstanding. The consequence was, an immediate increase in the value of those which remained in circulation, the restoration of them to par, and a corresponding improvement in the foreign exchanges. In the case of Ireland, in 1804 the exchange with England was extremely unfavourable. A Committee was appointed to consider the causes. It was denied by most of the witnesses from Ireland that they were at all connected with excessive issues of Irish notes. \* \* \*

In the spring of 1804 the exchange of Ireland with England was so unfavourable, that it required £118 10s. of the notes of the Bank of Ireland to purchase £100 of the notes of the Bank of England. Between the years 1804 and 1806 the notes of the Bank of Ireland were reduced from £3,000,000 to £2,410,000, and the effect of this, taken in conjunction with an increase of the English circulation, was to restore the relative value of Irish paper, and the exchange with England to par. In the same manner an unfavourable state of the exchange between England and Scotland has been more than once corrected by a contraction of the paper circulation of Scotland. In all these cases the action has been on that part of the paper credit of the country which has consisted of promissory notes payable to bearer on demand. There has been no interference with other forms of paper credit, nor was it contended then, as it is now contended by some, that promissory notes are identical in their nature with bills of exchange, and with cheques on bankers, and with deposits, and that they cannot be dealt with on any separate principle."

2. There is no need now of saying anything more regarding the unhappy heresy with which Sir Robert Peel was then infected, that nothing but Bank notes are paper currency, because we have nothing new to say. But it is impossible to imagine anything more inaccurately stated as historical evidence to support his ideas. In the first place, he committed the immense error of omitting to consider that, in the English and Irish cases, these things happened when the English and Irish Bank notes were *not* payable to bearer on demand, when they were, in fact, inconvertible. In his statement regarding the Bank of England he relied upon the Bullion Report. Now, we have shewn, by the most incontrovertible evidence, in Chapter VII., that this passage of the Bullion Report is the most amazing mass of chronological error and confusion that can be imagined. It was

not the profuse issues of Bank notes that depressed the exchanges, but the *badness of the coin*; it was not taking Bank notes out of circulation that brought the exchanges to par, but the *restoration of the coinage*, and the exchanges were brought to par nine months before the Bank note was brought to par. Hence, in this case, the statement that the excessive issues of Bank notes caused the exchanges to fall, and the withdrawal of them restored them to par, has not a shadow of a foundation in truth. Hence, there is no truth whatever in saying that the action was upon the Bank notes—the action was simply and solely on the *silver coinage*. The Irish case is equally inapplicable, because the notes were then inconvertible, and they were the medium in which payment of bills of exchange was made; and then, unquestionably, an excessive quantity of them depressed the exchanges prodigiously; but how does such a case apply to notes strictly convertible? The Scotch case is equally inapplicable—we have already detailed it in Chapter VI., for the notes were *not* payable to bearer on demand, but six months after demand. Consequently, of these three examples, the first is wholly inaccurate, and the other two are wholly inapplicable to the case he had in hand.

3. He then proceeded to expatiate on the evils of unlimited competition of issues:—

“Are the lessons of experience at variance with the conclusion we are entitled to draw from reason and from evidence? What has been the result of unlimited competition in the United States? In the United States the paper circulation was supplied, not by private bankers, but by joint stock banks, established on principles apparently the most satisfactory. There was every precaution taken against insolvency, unlimited responsibility of partners, excellent regulations for the publication and audit of accounts, immediate convertibility of paper into gold. If the principle of unlimited competition, controlled by such checks, be safe, why as it utterly failed in the United States? How can it be shewn that the experiment was not fairly made in that country? Observe this fact, while there existed a central Bank (the United States Bank) standing in some such relation to the other banks of the United States as the Bank of England stands to the banks in this country, there was some degree (imperfect, it is true) of control over the general issues of paper. But when the privileges of the central Bank ceased, when the principle of free competition was left unchecked, then came, notwithstanding professed convertibility, immoderate issues of paper, extravagant speculation, and the natural consequences, suspension of cash payments, and complete insolvency. Hence I conclude, that reason, evidence, and experience, combine to demonstrate the impolicy and danger of unlimited competition in the issue of paper.”



4. It is impossible to say which is the more remarkable in this extract—the evidence Sir Robert Peel omitted, or the evidence he adduced. The first thing that strikes us is—What was the need of crossing the Atlantic in search of an example of joint stock banks, with unlimited competition of issues? Why did he not cross the Tweed? On the north side of the Tweed there had existed joint stock banks, with unlimited issues, for 150 years, and no central bank to control the others; the principle of free competition was left unchecked, and the natural consequences, “suspension of cash payments, and complete insolvency,” had never occurred. But Sir Robert Peel carefully avoided saying one word about that case, and the reason was, that it militated against the theory he was determined to carry at all hazards, *that of one Central Bank of Issue*.

5. But the evidence he adduced was as great a misrepresentation of historical fact as what we have quoted in Section 2. The American Banks, indeed, established on principles the most satisfactory! why John Law was the parent of American banking! They were a formal adoption of the wild theories of Law. However, we cannot fully expose the fallacy of Sir Robert Peel's views of American banking until the next chapter; but as to the fact of the Central Bank of the United States exercising any due controlling influence over the other Banks, we will only quote a passage from President Van Buren's message to Congress, 1839:—

“I am aware it has been urged that the control (over the operations of the local Banks) may be best attained and exerted by means of a National Bank. *The history of the late National Bank, through all its mutations, shews that it was not so.* On the contrary, it may, after a careful consideration of the subject, be, I think safely stated, that at every period of banking excess it took the lead; that in 1817 and 1818, in 1823, and in 1833, and in 1834, its vast expansions, followed by distressing contractions, led to those of the State institutions. It swelled and maddened the tides of the banking system, but seldom allayed or safely directed them. At a few periods only was a salutary control exercised, but an eager desire, on the contrary, exhibited for profit in the first place; and if afterwards its measures were severe towards other institutions, it was because its own safety compelled it to adopt them. It did not differ from them in principle or in form; its measures emanated from the same spirit of gain; it felt the same temptation to over-issues; it suffered from, and was totally unable to avert, those inevitable laws of trade, by which it was itself affected equally with them, and at least on one occasion, at an early day, it was saved only by extraordinary exertions from the same fate that attended the weakest institution it professed to supervise. In 1837 it failed equally

with others in redeeming its notes, though the two years allowed by its charter had not expired, a large amount of which remains at the present time outstanding."

Such was the language held by the Government regarding that institution to whose abolition Sir Robert Peel attributed the destruction of American credit! and if we were to descend from the evidence of the Executive to that of the most eminent private commercial writers, such as Mr. Galatin, Mr. Lee, Mr. Appleton, and others, we shall find that the most reckless mismanagement was the chief characteristic of that Bank. So much for the value of it as an argument in support of Sir Robert Peel's views.

6. Sir Robert Peel then said that some contended—and he was not prepared to deny the proposition—that if we had a new state of society to deal with, the wisest plan would be to claim for the State the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coining. They considered that the State is entitled to the whole profits to be derived from that which is the representative of coin, and that if the State had the exclusive power of issuing paper, there would be established a controlling power which would ensure, as far as possible, an equilibrium in the currency. Is it necessary to point out the gross and ludicrous fallacy of Sir Robert Peel in this sentence? It is the height of incorrectness to say that the State has the exclusive power over the coinage, or at least, that she has reserved it to herself. Ever since the reign of Charles II., every private person has the right to have bullion coined at the Mint; formerly both gold and silver, to an unlimited extent. Since 1816 this privilege is confined to gold coin. At this moment all persons are entitled to have as much gold bullion as they please coined at the Mint; the only thing the State reserves to itself is the privilege of *coining* it so as to insure its being of a certain weight and fineness. But in what way is this analogous to the issue of promissory notes? The only duty of the State is to take measures that those who issue notes shall be in a condition to fulfil their promise of payment on demand. He then stated it was the intention of the Government to increase as much as possible the power of a single bank of issue, and that bank should be the Bank of England. The Bank was, therefore, to continue its privileges of issue, but it was to be divided into two departments, the one for the purpose of issuing notes, the other for the ordinary business of banking. But the Bank was to be deprived, once for all, of the power of unlimited issues. These were to take place in future on two foundations only: 1st, a fixed amount of public securities; and 2ndly, bullion. The amount of issues upon public securities was permanently fixed at £14,000,000; every other note was to be

issued in exchange for bullion only, so that the amount of the notes issued on bullion should be governed solely by the action of the public. Although Sir Robert Peel wished that there should only be a single bank of issue, yet existing interests were to be regarded; and those banks which were at that time lawfully issuing their own notes might remain banks of issue; but their amount was to be strictly limited to a certain definite average. There were other details concerning joint stock banks which we shall reserve.

7. On the 20th of May, Sir Robert Peel introduced his further resolutions, and proposed that, in the event of any country banks of issue failing, or withdrawing their notes voluntarily from circulation, the Bank might, with the consent of the Crown, increase its issues to a definite proportion of the notes thus withdrawn. And further, that the Bank should be obliged to buy all gold bullion presented for purchase at £3 17s. 9d. per ounce (the Bank had been giving only £3 17s. 6d.), and a certain proportion was allowed to be on silver bullion, as the export of that was a proper remedy for the inconvenience of our standard differing from that of other nations. It was, therefore, of great importance to ensure such a stock of silver in this country, as might meet the wants of merchants, and prevent them having to send to the Continent for it. He proposed that the silver bullion upon which the Bank might issue notes should not exceed one-fourth of the gold bullion.

8. It was impossible for Sir Robert Peel not to see the inconsistency of his measure of 1844, with his expressed sentiments in 1819 and 1833, that it was inexpedient to limit the issues of the Bank to any fixed amount, because there were times of commercial difficulty, when an increased issue of notes might be the proper remedy. There is no doctrine more strenuously insisted on by the Bullion Report, by the statesmen of 1819, as well as by the Government in 1833, and Sir Robert Peel himself, at both these periods, than that it was impossible to fetter the discretion of the Bank in its issues. Sir Robert Peel knew that he was now taking away this power from the Bank altogether, and, accordingly, he was obliged to meet this objection. He said:—

“It is said that the Bank of England will not have the means which it has heretofore had of supporting public credit, and of affording assistance to the mercantile world in times of commercial difficulty. Now, in the first place, the means of supporting credit are not means exclusively possessed by banks. All who are possessed of unemployed capital, whether bankers or not, and who can gain an adequate return by the advance of capital, are enabled to afford, and do afford, that aid which it is supposed by some that banks alone are enabled to afford. In

the second place, it may be a question, whether there be any permanent advantage in the maintenance of public or private credit, unless the means of maintaining it are derived from the *bonâ fide* advance of capital, and not from a temporary increase of promissory notes, issued for a special purpose. Some apprehend that the proposed restriction upon issue will diminish the power of the Bank to act with energy at the period of monetary crisis and commercial alarm and derangement. But the object of the measure is TO PREVENT (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. IT IS BETTER TO PREVENT THE PAROXYSM than to excite it, and trust to desperate remedies for the means of recovery."

Sir Robert Peel, therefore, deliberately took away the power of the Bank to act in extreme occasions, under the impression that his Act would prevent these extreme occasions from arising. We shall see how this hope was fulfilled.

9. Sir Charles Wood followed Sir Robert Peel, travelling over the same ground, and giving the same caricatured description of American banking as he had done; moreover, he also was infected with what is known by the name of the "currency principle":—

"It is not enough, then, to enact that the Bank notes shall be convertible. The paper circulation must not only be convertible, but must vary in amount from time to time as a metallic circulation would vary. A system, therefore, of paper circulation is required, which will attain this object, and insure a constant and steady regulation of the issues on this principle. This, and this alone, affords a permanent security for the practical convertibility of the notes at all times, and for the consequent maintenance of the standard."

10. The bill was read a second time, after a feeble opposition, by a majority of 185 to 30. It passed through the House of Lords with a very short debate, and no division. Lord Radnor alone protested against it, and it received the Royal Assent on the 19th of July, 1844.

11. The chief provisions of this Act are as follows (Statute 1844, c. 32):—

1. That, after the 31st August, 1844, the issue of Bank notes by the Bank of England should be kept wholly distinct from the general banking business, and be conducted by such a committee of the directors as the Court might appoint, under the name of the "Issue Department of the Bank of England."

2. That, on the same day, the Governor and Company should transfer, appropriate, and set apart, to the issue department



securities to the value of £14,000,000, of which the debt due by the public to the Bank was to be a part; and also so much of the gold coin and gold and silver bullion as should not be required for the banking department. The issue department was then to deliver over to the banking department an amount of notes exactly equal to the securities, coin, and bullion, so deposited with them. The Bank was then forbidden to increase the amount of securities in the issue department; but it might diminish them as much as it pleased, and increase them again to the limit defined, but no further. The banking department was forbidden to issue notes to any person whatever, except in exchange for other notes, or such as they received from the issue department in terms of the Act.

3. The proportion of silver bullion, in the issue department, on which notes were to be issued, was not at any time to exceed one-fourth part of the gold coin and bullion held at the time by the issue department.

4. All persons whatever, from the 31st August, 1844, were to be entitled to demand Bank notes in exchange for standard gold bullion, at the rate of £3 17s. 9d. per ounce.

5. If any banker who, on the 6th May, 1844, was issuing his own notes, should cease to do so, it should be lawful for the Crown, in Council, to authorise the Bank to increase the amount of securities in the issue department to any amount not exceeding two-thirds of the amount of notes withdrawn from circulation.

6. Weekly accounts in a specified form were to be transmitted to Government, and published in the next *London Gazette*.

7. From the same date the Bank was relieved from all stamp duty on their notes.

8. The annual sum payable by the Bank for their exclusive privileges should be increased from £120,000, as settled in 1833, to £180,000. And all profits derived by the Bank from the increase of their issues above the £14,000,000, as prescribed by the Act, shall go to the public.

9. After the passing of the Act, no person other than a banker who was lawfully issuing his own notes on the 6th May, 1844, should issue Bank notes in any part of the United Kingdom.

10. After the passing of the Act, it was forbidden to any banker to draw, accept, make, or issue, in England or Wales, any bill of exchange, or promissory note, or engagement for the payment of money payable to bearer on demand, or to borrow, owe, or take up in England or Wales, any sum or sums of money, or the bills or notes of such banker, payable to bearer on demand, except such bankers as were on the 6th May, 1844, issuing their own Bank notes, who were allowed to continue their issues in such manner, and to such extent, as afterwards provided. The rights of any existing firm were not to be affected by the with-



drawal, change, or addition of any partner, provided the whole number did not exceed six persons.

11. Any banker who ceased to issue his own notes from any reason whatever, after the Act, was not to resume such issues.

12. All existing banks of issue were forthwith to certify to the commissioners of stamps and taxes, the place, and name, and firm, at and under which they issued notes during the twelve weeks next preceding the 27th April, 1844. The commissioners were then to ascertain the average amount of each bank's issues, and it should be lawful for such banker to continue his issues to that amount, provided that on an average of four weeks they were not to exceed the average so ascertained.

13. If any two or more banks of issue had become united during that twelve weeks, the united bank might issue notes to the aggregate amount of each separate bank.

14. The commissioners were to issue in the *London Gazette* a statement of the authorised issues of each bank.

15. If two or more banks afterwards became united, each of less than six partners, then the commissioners might authorize them to issue notes to the amount of their separate issues. But if the number of the united bank exceeded six, their privilege of issuing notes was to cease.

16. If any banker exceeded his authorized issues he was to forfeit the excess.

17. Every bank of issue was to send a weekly account of its issues, which was to be published in the *London Gazette*.

18. The mode of taking the average was laid down, and bankers were to permit their books of accounts to be inspected by a Government officer properly appointed, and to make a return to Government once every year, within the first fortnight in January.

19. The Bank of England was allowed to compound with private banks of issue, to withdraw their own notes, and issue Bank of England notes, for a sum not exceeding one per cent. per annum, up to the 1st August, 1856.

20. All banks whatever in London, or within 65 miles of it, were allowed after the passing of the Act, to draw, accept, or indorse bills of exchange, not being payable to bearer on demand.

21. The privileges of the Bank were to continue till twelve months' notice, to be given after the 1st August, 1855; and repayment of the public debts, and all other debts whatever.

12. Such are the leading provisions of Sir Robert Peel's Act, which was meant to carry out a particular theory of currency, which we have no hesitating in affirming is one of the most stupendous delusions on the subject that any one ever conceived. A theory as opposed as possible to the opinions of all the

greatest authorities on the subject, during the great discussions on the currency in 1804, 1811, and 1819, which we have already abundantly quoted in the former part of this volume. But the most remarkable circumstance, is that the Act authorizes the most flagrant violation of the principle it is intended to enforce; for the issuing of notes upon the public funds is the most vicious principle possible. It is the theory of John Law, which we shall more fully consider in the next chapter. Indeed, so utterly blind was one of the most distinguished advocates of this theory to the true nature of monetary science, that he boasted that, "practically considered, fluctuations in the rate of interest, and in the state of commercial credit, so far as they can result from alteration in the value of the currency, may, under the operation of the proposed system, be taken at nihil."\*

13. The avowed object of the Act of 1844 was to take the regulation of the currency out of the hands, or even the power, of the directors of the Bank of England. The incorrigible mismanagement of that body had, in the opinion of every body, aggravated every crisis. The authors of the Act of 1844 flattered themselves that for every five sovereigns that left the country, a five-pound note must be withdrawn from circulation. We shall see hereafter how this expectation was fulfilled. In the meantime, Sir Robert Peel himself and all the supporters of the Act, gave out that it was the complement of the Act of 1819, though we confess we do not clearly see the meaning of the phrase. If, however, they mean to say that it was in the spirit of the Act of 1819, or of the statesmen of that period, we wholly deny such to be the fact, and to suppose so, only argues the most profound ignorance of the sentiments of the authors of the Act of 1819.

14. The issues of notes, then, of the Bank of England, are founded upon two of the most fatal delusions that ever prevailed on the subject of the paper currency; the one the theory of John Law, and the other the "currency principle," which came into fashion about twenty years ago.

15. We have observed, in the last chapter, that, owing to the good harvests of 1842-3-4, the bullion in the Bank accumulated very rapidly during these years, and a very large quantity of money, which the nation must otherwise have spent in food, was set free for commercial purposes. Other circumstances occurred at the same time to liberate a large quantity of the capital of the country from its accustomed use, and to render it applicable to commercial purposes, which have been very clearly and ably

\* Col. Torrens. Tooke's Hist. of Prices, Vol. IV., p. 282.

pointed out by Mr. James Wilson. He shews that the rapidity and certainty of conveyance reduces very greatly the amount of stock it is necessary at all times to keep on hand when communications are slow and uncertain. That the amount of goods in transit is much larger with a slow conveyance than a quick one. For example, when Manchester supplies London with manufactured goods—if it takes seven days by canal for these goods to reach London, it is clear that there must always be seven days' consumption of goods on the way. If the same transit is accomplished by railway in one day, it is only necessary to have one day's consumption on the way; and the capital employed in producing the other six days' consumption is liberated, and may be employed in promoting other commercial operations. When we consider the enormous economy of capital required in the transaction of the same amount of business which was effected by the introduction of more rapid modes of communication, whether by railways or steamboats, we shall understand how greatly they increased the national resources. There can be no doubt that the economy of national capital effected by the extension of railways far exceeded the losses which occurred from unsuccessful speculation in them. Now, these operations were beginning to have their full effect in saving the national capital, simultaneously with the good harvests of 1842-3-4, and helped to swell the quantity of disposable capital to an unprecedented extent.

16. An attentive consideration of these circumstances is absolutely necessary, because they shew, if anything were necessary to shew it, the gigantic error committed by many writers, who think that the prices of goods must vary exactly with any increase or decrease of the amount of the currency, whereas there is no necessary relation between the two whatever. The particular methods of doing business have the most important influence on the quantity of capital necessary to carry it on; and a clumsy or more ingenious method of transacting business may make the most important changes in the quantity of money necessary to circulate any given amount of commodities without causing any alteration in the price of those commodities.

17. The Act of 1844 having placed an absolute limit upon the discretion of the Bank in issuing notes, Sir Robert Peel said that he thought that banking business could not be too free and unrestrained. The extraordinary accumulation of capital, arising from the circumstances we have just detailed, lowered the market rate of discount to  $1\frac{3}{4}$  and  $2\frac{1}{2}$ , on the best bills, and the Bank of England immediately conformed to the market rate on the passing of the Act, and reduced its rate from 4 per cent. to  $2\frac{1}{2}$

for the best bills. The day the Act came into operation, indeed, the whole of the discounts were done at  $1\frac{3}{4}$ , and they continued at that rate for a fortnight, when some was done at 2 per cent.; and up to the 26th October a considerable portion was done at  $2\frac{1}{4}$ . From this date, however, up to October, 1845, the rate was  $2\frac{1}{2}$ . In November, 1845, the rate was suddenly raised to  $3\frac{1}{2}$ , and continued at that figure till August, 1846, when it was lowered to 3 per cent. These rates being governed by the flow of bullion, which diminished from  $15\frac{1}{2}$  millions when the Act of 1844 passed, to  $13\frac{1}{2}$  millions in November, 1845; after which it increased again to above 16 millions in August, 1846, and then began steadily to decline till it reached its minimum in the great crisis of October, 1847.

18. The first failure of the potatoe crops in Ireland in 1845, and the railway mania of that year, must be too fresh in the recollection of most persons to need repetition here; nor had they anything to do properly with the management of the Bank, whose sole proper duty was to look to its own affairs, and preserve its own stability. The calamity of 1846 was far more severe and extensive than that of the preceding year. It was absolutely certain that an immense quantity of bullion would require to be exported in payment of the grain it would be necessary to import. Accordingly, from the middle of September, 1846, a steady and continuous drain of bullion set in, *but the Bank made no alteration in the rate of discount* until the 16th January, 1847, when the bullion had fallen to £13,949,000, it raised the rate of discount to  $3\frac{1}{2}$ , and on the 23rd, the bullion having been further diminished by £500,000, it raised the rate to 4 per cent. Henceforth the drain continued rapidly, but the Bank still continued to make no alteration until the 10th April, when its treasure being reduced to £9,867,000, the rate of discount was raised to 5 per cent. Here we have the same inveterate blunder committed by the Bank as on so many previous occasions—an immense drain of bullion, and yet none but the most feeble, inefficient, and puerile means taken by the Bank to raise the value of money here. But the operation of the Bank at this time is an excellent example of the self-acting nature of the Act of 1844. We need only observe, that the Banking Capital of the Bank of England is £14,000,000 of notes, based upon public securities, together with notes representing as much bullion as there is in the issue department. Consequently, the notes held in reserve must always be equal to the difference between the notes in circulation, or held by the public, and the sum of £14,000,000 added to the quantity of bullion. Now, we have seen that the intention of the framers of the Act of 1844 was, that, as the bullion diminished, the notes in the hands of the public should be diminished, in conformity to the “currency

principle." Let us now see, 1st, How the Bank was inclined to act on the principle; and, 2ndly, Supposing they were disinclined to do so, how far the Act, by its self-acting principles, compelled them to do so. The following figures speak for themselves:—

1846.	Bank Notes.		Total Amount of Bullion.	Minimum Rate of Discount Per Cent.
	Held by the Public.	Held in Reserve by the Bank of England.		
August 29	20,426,000	9,450,000	16,366,000	3
October 3	20,551,000	8,809,000	15,817,000	"
November 7	20,971,000	7,265,000	14,760,000	"
December 19	19,549,000	8,864,000	15,163,000	"
1847.				
January 9	20,837,000	6,715,000	14,308,000	"
— 16	20,679,000	6,546,000	13,949,000	3½
— 30	20,469,000	5,704,000	12,902,000	4
February 20	19,482,000	5,917,000	12,215,000	"
March 6	19,279,000	5,715,000	11,596,000	4
— 20	19,069,000	5,419,000	11,232,000	"
April 3	19,855,000	3,700,000	10,246,000	"
— 10	20,243,003	2,558,000	9,867,000	5

These figures shew the utter futility of the idea that, as the bullion diminished, the Act could compel a reduction of notes in the hands of the public, for the notes in circulation were within an insignificant trifle as large in amount when the bullion was only £9,867,000, as when it was £16,366,000. Consequently, nothing could be a more total and complete failure of the Act of 1844, on the very first occasion its services were required.

19. The number of notes held in reserve in the Banking department, under the new system of 1844, corresponded in effect, very much to the amount of the bullion held by the Bank before its division. When, therefore, the public saw that the whole banking resources of the Bank were reduced to £2,558,000, a complete panic seized both the public and the directors. The latter adopted measures of the most unprecedented severity to check the demand for notes. The rate was not only raised to 5 per cent., but this was only applicable to bills having only a few days to run, and a limit was placed upon the amount of bills discounted, however good they might be. Merchants who had received loans were called upon to repay them without being permitted to renew them. During some days it was impossible to get bills discounted at all. These measures were effectual in stopping the efflux of bullion, and a sum of £100,000 in sove-



reigns, which had been actually shipped for America, was relanded. During this period the rate of discount for the best bills rose to 9, 10, and 12 per cent. During all this time the price of wheat continued steadily to rise, notwithstanding the monetary pressure; and at the close of May, the price on one occasion reached 131s. in Windsor Market. The foreign exchanges, which had been adverse to the country during the latter part of 1846 and the beginning of 1847, from the immense quantity of foreign corn which was imported, became favorable in the middle of April, partly owing to the great monetary pressure.

20. The pressure passed off after the first week in May, having lasted about three weeks, and bullion began to flow in after the 24th of April, until, at the end of June, it amounted to £10,526,000, the notes in circulation being £18,051,000, and the notes in reserve £5,625,000.

21. The conduct of the Bank, in keeping down the rate of discount when a rapid drain was going on, and the foreign exchanges were unfavorable, was the exact counterpart of what it had done on so many previous occasions, and excited much comment and adverse criticism by the whole commercial community of London. The market rate rose decidedly above it, so that a rush for discounts was made to the Bank, which were no sooner obtained in notes, than the holders of them went immediately to the issue department to demand gold for them.

22. On the 7th of May, the Chancellor of the Exchequer brought the subject of the monetary pressure before the House, and stated that he had numerous deputations to him respecting a suspension of the Act of 1844, which the Government were not prepared to adopt. However, he meant to assist the Bank so far as to dispense with the aid the Government usually had from the Bank at Quarter day. With this view, he intended to raise the interest on Exchequer bills, which were then at a greater depreciation than any other species of Government security, to 3d. per day. On the 10th he brought in a resolution, to allow all persons who had subscribed to the eight million Irish loan a discount of 5 per cent. on any instalment paid in before the 18th of June, and 4 per cent. if paid in before the 10th of September.

23. The enormously high price of grain, which had no parallel since 1812, had the natural effect of tempting a great number of houses to enter into speculations for the import of grain, far beyond their power to support. The enormous importations in May, June, and July, coupled with the very

favorable appearance of the harvest, caused a heavy and continuous fall in the price of grain, and the reports of the potatoe crop being favorable, the price of wheat fell to 49s. 6d. in September. But the tremendous fall in the price of wheat had been attended with ruin to the houses which had speculated in it. Moreover, that hideous nuisance which always flourishes with noxious luxuriance in times of speculation—accommodation paper—was extensively prevalent. The failures in the corn trade began in August, which engendered a great discredit in that and other branches of commerce. On the 7th of August, the minimum rate of discount was raised to  $5\frac{1}{2}$ ; but this only referred to very short-dated paper, as the greater part of the paper discounted was charged at much higher rates, even up to 7 per cent., which were maintained up to the 9th October.

24. On the 9th August the first of the frightful catalogue of failures began. Leslie, Alexander, and Co. stopped payment, with liabilities amounting to £500,000. On Wednesday, the 11th, Coventry and Sheppard stopped for £200,000, and King, Melville, and Co., also for £200,000, and several other minor firms made the total failures in the first week amount to £1,200,000. In the next week, Giles and Co. failed for £800,000, and the total in the second week was £300,000. In the following week, Robinson and Co. failed for £110,000, the senior partner of which firm was the Governor of the Bank of England. In three weeks, the failures were £3,027,000. Week after week followed, each one increasing in severity, until at last the total exceeded £15,000,000. In the middle of September, Saunderson and Co., the eminent bill brokers, stopped payment, being much involved with the great houses in the corn trade. The exchanges, which had been brought to par in April by the monetary pressure in that month, were, in consequence of the increasing severity of the crisis, become decidedly favourable, and, on the 25th of September, bullion began to flow in. During the whole of September the commercial calamities were falling fast and thick.

25. Almost all the firms connected the Mauritius, such as Reid, Irving, and Co., failed, principally from having their funds locked up in sugar plantations. This was accompanied by immense failures in the India trade; the credit commonly given in that trade being of unusual length, which affords dangerous facilities for stretching it to too great a length. The railway works which had been sanctioned in the Session of 1845-6, were now in full operation, causing an immense demand for ready money. Almost every tradesman in the kingdom, from Land's End to John O'Groat's, was deep in railway speculations. The extravagant delirium of prosperity in 1845-6, had caused great

numbers of them, not only to live far beyond their means themselves, but to trust their customers beyond all the bounds of ordinary credit. We have heard it said, that in numberless instances, their bills for goods furnished in 1845 were unpaid in 1847. There can be no doubt whatever but that commercial credit of all sorts and descriptions, among all classes of traders, was in probably a more unhealthy state than it had ever been before, and that an unprecedentedly large portion of the community were entangled in obligations, of which there was no prospect of their ever working themselves free. Sharp and severe, therefore, as the remedy was, it unquestionably was the very best thing that could happen, that this unhealthy superstructure should be cleared away, and that commerce should be reconstructed upon an improved and renovated basis. The extreme pressure may be considered to have begun on the 23rd of September, when the Bank adopted more stringent measures for curtailing the demand upon its resources. Ever since the 26th of June, the diminution of bullion had been going on rapidly; on the 2nd of October it was reduced to £8,565,000, the notes in circulation being £18,712,000, and the reserve, £3,409,000. This rapid diminution of their resources shewed the directors that the time had come when they must think of their own safety; and on that day they gave notice that the minimum rate on all bills falling due before the 15th of October would be  $5\frac{1}{2}$ ; and they refused altogether to make advances on stock or Exchequer bills. This last announcement created a great excitement on the Stock Exchange. The town and country bankers hastened to sell their public securities, to convert them into money. The difference between the price of consols for ready money, and for the account of the 14th of October, shewed a rate of interest equivalent to 50 per cent. per annum. Exchequer bills were sold at 35s. discount. Everything became worse and worse day by day. On the 16th of October, the Bank rates of discount varied from  $5\frac{1}{2}$  to 9 per cent. At this time the bullion was £8,431,000; the notes in circulation, £19,359,000; and in reserve, £2,630,000. The following week, from Monday, the 18th, to Saturday, the 23rd, was the great crisis. On that Monday the Royal Bank of Liverpool, with a paid up capital of £800,000, stopped payment, which caused the funds to fall 2 per cent. This was followed by the stoppage of the North and South Wales Bank, also of Liverpool, the Liverpool Banking Company, the Union Bank of Newcastle, heavy runs on the other banks of the district, and other bank failures at Manchester, and in the west of England. As the whole of the commercial world knew that the resources of the banking department were being rapidly exhausted, a complete panic seized them. A complete cessation of private discounts followed. No one would part with the money or notes

in his possession. The most exorbitant sums were offered to and refused by merchants for their acceptances.

26. The continued and ever-increasing severity of the crisis caused deputation after deputation to be sent to the Government, to obtain a relaxation of the Act; and, on Saturday, the 23rd of October, the final determination of the Ministry to authorise the Bank to issue notes beyond the limits prescribed by the Act was taken, and communicated to the Bank, who immediately acted upon it, and discounted freely at 9 per cent. The letter itself was not actually sent till Monday, the 25th. It stated that the Government had expected that the pressure which had existed for some weeks would have passed away, like the one in April had done, by the operation of natural causes; that, being disappointed in this hope, they had come to the conclusion that the time had come when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile community. That, for this purpose, they recommended the directors of the Bank of England, in the emergency, to enlarge the amount of their discounts and advances upon approved security; but that, in order to restrain this operation within reasonable limits, a high rate of interest should be charged, which, under the circumstances, should not, they thought, be less than 8 per cent. That if such a course should lead to any infringement of the law, they would be prepared to propose to Parliament, on its meeting, a Bill of Indemnity. This letter was made public about 1 o'clock on Monday, the 25th, and no sooner was it done so than the panic vanished like a dream! Mr. Gurney stated that it produced its effects in ten minutes! No sooner was it known that notes *might* be had, than the want of them ceased! Not only did no infringement of the Act take place, but the whole issue of notes, in consequence of this letter, was only £400,000; so that, while at one moment the whole credit of Great Britain was in imminent danger of total destruction, within one hour it was saved by the issue of £400,000.

27. The extraordinary and disastrous state of public credit at this period may be judged of by the aid afforded by the Bank of England to different establishments, from the 15th of September to the 15th of November, as follows:—

1. It advanced £150,000 to a large firm in London, who were under liabilities to the extent of several millions, on the security of debentures of the Governor and Company of the Copper Miners of England, which prevented them stopping payment.

2. It advanced £50,000 to a country banker, on the security of real property.

3. It advanced £120,000 to the Governor and Company of the Copper Miners, which prevented them stopping payment.

4. It advanced £300,000 to the Royal Bank of Liverpool, on the security of bills of exchange, over and above their usual discounts; but this was inadequate, and the bank, having no further security to offer, stopped payment.

5. It advanced £100,000 to another joint stock bank in the country.

6. It advanced £130,000, on real property, to a large mercantile house in London.

7. It advanced £50,000 to another mercantile house, on the security of approved names.

8. It advanced £50,000, on bills of exchange, to a joint stock bank of issue, which soon after stopped payment.

9. It advanced £15,000 on real property to another mercantile house in London.

10. It saved a large establishment in Liverpool from failing, by forbearing to enforce payment of £100,000 of their acceptances falling due.

11. It assisted another very large joint stock bank in the country, by an advance of £800,000 beyond its usual discount limit.

12. It advanced £100,000 to a country banker, on real security.

13. It advanced to a Scotch bank £200,000 on the security of local bills, and £60,000 on London bills.

14. It assisted another Scotch bank, by discounting £100,000 of local and London bills.

15. It advanced £100,000 to a large mercantile house in London, on approved personal security.

16. It assisted a large house in Manchester to resume payment, by an advance of £40,000 on approved personal security.

17. It advanced £30,000 to a country bank on real property.

18. It assisted many other houses, both in town and country, by advances of smaller sums on securities not usually admitted; and it did not reject, in London, any one bill offered for discount, except on the ground of insufficient security.

The far larger portion of this assistance was given before the 23rd of October.

28. A general election had taken place in the Autumn of 1847, and the Ministry, having taken upon themselves the responsibility of authorising the Bank of England to violate the Act of 1844, lost no time in calling a meeting of the new Parliament. It met on the 18th of November, and, after a few preliminary days were occupied in swearing in the members, the speech from the throne was delivered on the 23rd. The first paragraphs stated, as a reason for calling them together, that the embarrassments of trade were so alarming that the Queen had authorised the Ministry to recommend to the Bank of England a course which might have led to an infringement of



the law. Happily, however, the power given to infringe the law, if necessary, had allayed the panic.

29. On the 30th of November, the Chancellor of the Exchequer moved for a Committee to inquire into the causes of the recent commercial distress, and how far it had been affected by the Act of 1844. He spoke of the panic in the Spring. He said that he had seen no reason to change the opinion he had then expressed, that it was mainly owing to the imprudence of the Bank, which, having full warning of the various demands it would have upon it, were too tardy in raising the rate of discount, and had lent out, over the period when the dividends became payable, the money they had provided for that purpose; so that they were not in possession of adequate funds when they were required. The low state of their reserve then excited consternation. The Bank then took the severe step of reducing the amount of discounts; they pulled up as suddenly as they had unwisely let out their reserve before. With respect to the panic of October, he said that the severe pressure in the Money Market had abated when the bank failures in Liverpool and the North of England took place, which renewed the alarm. After describing the great pressure on the banks in the country, he said:—

“The Bank of England were pressed directly for assistance from all parts of the country, and indirectly through the London bankers, who were called upon to support their country correspondents. The country banks required a large amount of notes, to render them secure against possible demands; not so much for payment of their notes as of their deposits. Houses in London were applying constantly to the Bank for aid. Two bill brokers had stopped, and the operations of two others were nearly paralysed. The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this, as I before said, the Bank never refused a bill, which it would have discounted at another time, but still, the large mass of bills which, under ordinary circumstances, are discounted by bill brokers, could not be negociated. During this period, we were daily, I may say hourly, in possession of the state of the Bank. The Governor and Deputy-Governor at last said they could no longer continue their advances, to support the various parties who applied to them; that they could save themselves, that is, they could comply with the law; but that they could not do so without pressing more stringently on the commercial world. At this crisis, a feeling as to the necessity of the interposition of Government appeared to be generally entertained; and those conversant with commercial affairs, and least likely to decide in favor of the course we ultimately adopted, unanimously expressed an opinion, that if some measure were not taken by the Govern-

ment to arrest the evil, the most disastrous consequences must inevitably ensue. Evidence was laid before the Government, which proved, not only the existence of severe pressure from the causes I have stated, but also that it was aggravated in a very great degree by the hoarding, on the part of many persons, of gold and Bank notes, to a very large extent, in consequence of which an amount of circulation, which, under ordinary circumstances, would have been adequate, became insufficient for the wants of the community. It was difficult to establish this beforehand, but the best proof of the fact is in what occurred after we interfered. As soon as the letter of the 25th October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards, some from boxes deposited with Bankers, although the parties would not leave the notes in their Banker's hands. Large parcels of notes were returned to the Bank of England cut into halves, as they had been sent down into the country; and so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank, when the unlimited power of issue was given, was under £400,000. The restoration of confidence released notes from their hoards, and no more was wanted, for this trifling quantity of additional notes is hardly worth notice.

\* \* \* Parties of every description made application for assistance to us, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them; say you will stand by us, and we shall have all that we want; do anything, in short, that will give us confidence. If we think that we can get Bank notes, we shall not want them. Charge any rate of interest you please, ask what you like—(*Mr. Spooner*, no! no!) I beg pardon of the honorable gentleman, but I may be permitted to know what was actually said to me. I say, that what I have stated, was the tenor of the applications made to me. Parties said to me, 'Let us have notes, charge 10—12 per cent. for them; we don't care what the rate of interest is. We don't mean, indeed, to take the notes, because we shall not want them; only tell us that we can get them, and this will at once restore confidence.' We have been asked what was the change of circumstances which induced us to act on Saturday when we declined acting a day or two before. I reply, that the accounts which we received on Thursday, Friday, and Saturday, were of a totally different description from those which had been previously brought us. It was on Saturday, and not before, that this conviction was forced upon us, and it was not till then that we felt it necessary to sanction a violation of the law."

The persons applying generally said that it was necessary to place a limit on the amount to be authorized, which they proposed should be £2,000,000 or £3,000,000, but the Government

thought that the limit should be placed on the rate of interest, and, accordingly, this was the method adopted.

30. Sir Robert Peel felt particularly called upon to come forward and defend the Act of 1844. After defending himself from some minor charges, he protested against singling out individual members of Parliament, and making them responsible for the acts of the whole Legislature. He said that some persons alleged that the Act of 1844 had been passed without due inquiry, but he recounted the committees that had sat for five years, and had asked, on the whole, upwards of 14,000 questions—questions and answers without end, but with no practical result from those apparently interminable investigations. The last committee had closed its labours without any practical results. At last, the Ministers determined to bring forward a measure on their own responsibility, which had been carried by extraordinary majorities; but, nevertheless, if it could be shewn that the Act of 1844 could be amended, that it ought to be done.

“There has been some misrepresentation respecting the objects of this Act. I do not deny that one of the objects contemplated by the Act was the prevention of the convulsions that had heretofore occurred in consequence of the neglect by the Bank of England to take early precautions against the withdrawal of its treasure. I did hope that, although there was no imperative obligation on the Bank of England to take those precautions, that the experience of 1825, 1836, and 1839, would have induced that establishment to conform to principles which the directors of the Bank acknowledged to be just, and which they had more than once professed to adopt for their own regulation. Sir, I am bound to say, that in that hope, that in that object of the bill, I have been disappointed. I am bound to admit, seeing the extent of commercial depression which has prevailed, and the number of houses which have been swept away, some of which, however, I think, were insolvent long before the bill came into operation, and others of which became insolvent in consequence of the failure of those who were connected with them, and were imprudent in their speculations, I am bound to admit that that purpose of the bill of 1844, which sought to impress, if not a legal, at least a moral obligation on the Bank, to prevent the necessity for measures of extreme stringency by timely precautions, has not been fulfilled. Sir, I must contend, that it was in the power of the Bank, if not to prevent all the evils that have arisen, at least, greatly to diminish their force. If the Bank had possessed the resolution to meet the coming danger by a contraction of its issues, by raising the rate of discount, by refusing much of the accommodation which they granted between the years 1844 and 1846—if they had been firm and determined in the adoption of those precautions, the necessity for extrinsic

interference might have been prevented; it might not then have been necessary for the Government to authorise a violation of the Act of 1844. \* \* \* The bill of 1844 had a triple object. Its first object was that in which I admit it has failed, namely, to prevent, by early and gradual, severe and sudden contraction, and the panic and confusion inseparable from it. But the bill had at least two other objects of at least equal importance—the one to maintain and guarantee the convertibility of the paper currency into gold; the other to prevent the difficulties which arise at all times from undue speculation being aggravated by the abuse of paper credit in the form of promissory notes. In these two objects my belief is that the bill has completely succeeded. My belief is that you have had a guarantee for the maintenance of the principal of convertibility such as you never had before; my belief also is, that, whatever difficulties you are now suffering, from a combination of various causes those difficulties would have been greatly aggravated if you had not wisely taken the precaution of checking the unlimited issues of the notes of the Bank of England, of joint stock banks, and private banks.”

31. Sir Robert Peel then entered into a most able description of the true evils the country was suffering under, which arose from the enormous destruction of capital by the dearth of food, and the unusual absorption of capital in one channel of commerce, the construction of railroads, which were not yet remunerative. He shewed the absurdity of expecting to have cheap money while capital was scarce. The whole of his remarks are so admirable, that we regret that their length prevents us from giving them entire. He cordially approved of the course the Government had taken in not issuing the letter sooner than they did, and in doing it when they did. The true remedy for the state of things under which the country was suffering was individual exertion, the limitation of engagements, the cessation of all demands which could be postponed; an earlier issue of the letter would have relaxed these necessary exertions. But to that pressure a panic succeeded, which could not be provided against or foreseen by legislation, which could not be reasoned with, and which could only be met by a discretionary assumption of power by the Government suitable to the emergency. Whether any modification in the Act of 1844 was desirable, was a question for future consideration. His own opinion was in favour of the maintenance of the great principles of that measure. If the identical restrictions were not imposed upon the Bank as were then in force, still there must be some restrictions; for, after the experience of 1825, 1836, and 1839, he for one would not be content to leave the regulation of the monetary concerns of this country to the uncontrolled discretion of the

Bank. In 1844 the general conviction was that it ought not to be so left, and he for one knew no better mode of imposing restriction than that which was devised by the Act of 1844." Fully agreeing with Sir Robert Peel on the necessity for a restriction, we think that the restriction devised by the Act of 1844 is not the true one, and that it leaves open the door to the Bank for the most fatal mismanagement. We shall endeavour to shew, in a future chapter, that one may be devised which must be effectual.

32. The Committee appointed by each House began to sit in February, 1848. The Governor, Mr. Morris, and the Deputy-Governor, Mr. Prescott, were examined at great length before each Committee, and expressed their unqualified approbation of the Act of 1844, and the manner it had worked. The object of the Act was to place the circulation of this country exactly in the same position as it would have been if the currency had been entirely metallic.

"Your opinion is, then, that with regard both to the contraction of the currency and the expansion of the currency, they would both have taken place precisely in the same mode, and to the same degree, had the currency been purely metallic?"

*Mr. Morris*—"Yes, I have not the slightest doubt upon the subject."

They said that its object was to secure the convertibility of the note, which it had effectually done. That the Bank acted erroneously in the spring of 1847 in not raising their rate of discount sooner, which much contributed to the monetary pressure in April. They said that the Government letter of the 25th October was not sought for by them, nor issued in any way at their instance, that they had no fear whatever for the Bank, and that it was not required to maintain the solvency of the Bank; but, nevertheless, it had the best effects in allaying the commercial panic. That the panic would inevitably have occurred even without the Act of 1844, but that Act brought it on sooner, and probably made it less severe. That the great merit of the Act was, that when the pressure did come, the Bank was in possession of £8,000,000 of treasure; that if the Bank had been left free it would probably have followed the course of dangerous liberality which it had done on so many previous occasions. That, though the Government letter did relieve the panic, it would probably have passed away without it. They earnestly deprecated any alteration of the Act, except that they thought the permission to issue notes upon silver bullion too limited.

33. Mr. S. Gurney agreed in blaming the management of the Bank during the first three months of 1847, and said, that if the



Bank had commenced restrictive measures much earlier, the pressure of April would have been mitigated. He said, that in October the rapid diminution of the reserve caused a very general distrust among the public as to how they were to obtain circulating medium. The wealthy and more powerful took care very largely to over-provide themselves, infinitely beyond the necessities of the case. The consequence was, that the notes in the hands of the public amounted to nearly £21,000,000, of which he had no doubt that four or five millions were locked up and inoperative in consequence of the alarm and fear of not being able to get Bank notes at all. In illustration of this, he said that his own house was largely called upon for money on Saturday, the 23rd, not from distrust of the house, but from doubt that Bank notes were to be had at all. They applied to the Bank for discount to a large amount, which was agreed to, but they were told the rate must be 10 per cent.; upon remonstrating with the Governor, and saying that it would have the worst effect if it became known that their house was paying 10 per cent. for money, the rate was finally agreed upon at 9 per cent. At this rate they took £200,000. On Monday, the 25th, however, the demand was again very heavy, and they applied for £200,000 more. It was a case of difficulty with the Bank under its reduced reserve and the limitation of the Act, and a final decision was postponed till two o'clock. At one o'clock, however, the letter from the Government was announced, authorizing the relaxation. Its effect was immediate. Those who had sent notice for their money in the morning sent word that they did not want it, and that they had only ordered payment by way of precaution. After the notice, they only required £100,000 instead of £200,000, the alarm passed off, and by the end of the week they had to ask the Bank, as a favour, to be allowed to repay the money they had taken. Mr. Gurney stated, that the experience of the last two years had altered his opinion respecting the Act, and that he thought it necessary there should be a relaxing power somewhere.

34. Lord Overstone was of opinion that the Act of 1844 had no effect whatever in aggravating the pressure in April; that the course pursued by the Bank from January to April was extremely erroneous and detrimental to the public interest, and was only stopped by the positive provisions of the Act; and, if that system of procedure had not been so stopped, it must have ended in the most disastrous consequences.

35. Mr. George Carr Glynn had been of opinion before the Act passed that the division of the Bank into the issue and banking department was a desirable experiment, but, after the experience of the preceding year, considered that it had decidedly failed.

36. The Committee of the Commons, presented their report on the 8th June, 1848. It entered into no philosophical examination of the correctness, or the contrary, of the opinions of the witnesses; it aspired to and attained to no higher function than acting as a kind of preface to the mass of evidence, but concluded by stating the opinion of the Committee that it was not expedient to make any alteration in the Act of 1844. The Report of the Committee of the Lords was presented in July, and was a much more elaborate production. It not only examined the evidence at considerable length, but pronounced an opinion of its own, and recommended that the Act should be so far amended as to introduce a discretionary relaxing power, which was only to be exercised during the existence of a favorable foreign exchange.

37. On the 22nd of August Mr. Herries moved that the House would, early next Session, take the Report into consideration, which motion was negatived. In the next Session he made another attempt to induce Parliament to alter the Act, but without avail.

38. After the severe medicine the body commercial had been subjected to by the great crisis of 1847, which there can be little doubt was of great service, by removing houses that had been insolvent for years, the commerce of the country was established on a sounder basis, and had gone on, generally speaking, with great prosperity up to the present time. The chances of war led to a great demand for shipping, and, of course, much speculative dealing in that property. This occurred especially at Liverpool in the autumn of 1854, and led to some very extensive failures. The revelations which ensued from these failures disclosed that the same inveterate and abominable practices of accommodation paper were again rampant. Fictitious bills to an enormous amount were fabricated among persons who were in the same species of business, and were negotiated all over the kingdom. Other parties resorted to practices even more disgraceful still, if possible. These great failures, which are too well known to require naming here, gave credit a very serious shock; in addition to which, a considerable number of persons who were engaged in extravagant over-trading in Australia suffered severe losses. As the next year, however, passed on, credit somewhat became and is now in a sounder position than it was then. There is nothing to call for special remark, except that a great drain of bullion began from the Bank of England at the end of June, and continued rapidly and steadily till the middle of October. On the 23rd of June it stood at £18,169,000, including the coin and bullion in both departments; and by the 13th of October it was reduced to £11,752,300. The causes of

this great outflow are not sufficiently ascertained yet, for us to reason upon them with accuracy. Some attributed it to the purchases of corn which the high price of wheat here caused to be made for importation—some to operations of the Bank of France. Time will probably furnish us with more satisfactory and accurate information. What the causes were is of comparatively slight moment. We are happy to say that the Bank of England acted, in this case, with a promptitude and decision most favorably contrasted with its former errors. The rate of discount was rapidly raised, to enhance the value of money. On no former occasion has the rise been so frequent and extensive in so short a time; but the effect produced was most salutary.

39. The following table, taken at intervals, shews the bullion in the Bank, and the rate of discount:—

1855.		Bullion in the Issue Department.	Rate of Discount.
		£	
January	4.....	13,180,835	5 per cent.
"	20.....	11,880,560	"
February	22.....	12,313,230	"
March	22.....	13,479,975	"
April	12.....	14,392,500	4½ per cent.
May	3.....	14,791,785	4 "
"	17.....	15,336,510	"
"	31.....	16,337,685	"
June	14.....	17,056,945	3½ per cent.
"	28.....	17,429,435	"
July	19.....	16,631,890	"
August	9.....	15,601,590	"
September	6.....	14,368,010	4 per cent.
"	13.....	13,668,005	4½ per cent.
"	27.....	12,695,250	5 per cent.
October	4.....	12,368,255	5½ per cent.
"	18.....	11,205,855	6 per cent. for bills not longer than 60 days.
November	8.....	10,741,320	7 per cent. for bills not longer than 95 days.
December	6.....	10,580,570	"
"	27.....	10,369,595	"

For several preceding weeks the *Economist* reported the Money Market to be as tight as it could well be. But on the 29th of December it said:—

"The Money Market continues as stringent as it can well be, and no bills can be discounted under the Bank rates. Paper at long dates cannot be discounted on any terms. The great extent of our trade, as indicated by the returns for November, confirms the suspicion awakened by the continued demand for money, *that trade has received no serious check from the advance in the rate of discount*, and is still more extensive than prudence warrants, or in the end will be justified."

40. This most judicious conduct on the part of the Bank, which merited nothing but the most unqualified commendation, excited a great clatter amongst a certain number of people who think that money is to be created *ad libitum* by writing "promises to pay" on bits of paper, when there is no money to pay them with, and who think it possible to send one's money abroad and also to have it at home. The papers were filled for weeks with letters and articles exhibiting all the rank follies which were once prevalent on the subject of the price of corn, and which have been so admirably exposed by Adam Smith. But in this respect a most marked and healthy change has been of late years most manifest in the majority of public writers. The great majority now understand that the rate of discount is the true regulating power of the paper currency, and, instead of assailing the Bank with howls and execration when it does its duty in raising its rate, they, with a few exceptions, now universally commend it. This is great, real, and sound progress in the spread of true Economic science.

41. At the end of this year the Queen exercised the power reserved in the Act of 1844, to enable the Bank of England to extend its issues to not more than two-thirds of the amount of those of any banks of issue that might cease to issue notes. From the passing of the Act up to this period forty-seven banks, whose authorized issues amounted to £712,623, ceased to issue their own notes, and, on the 13th December, 1855, the Queen in Council issued an order authorizing the Bank of England to increase its issues to the amount of £475,000 upon public securities. But this is not the *bonâ fide* increase to the issuing power of the Bank. For in the year 1854 the Clearing House was organized on a better plan, and whereas before that an average amount of £200,000 of bank notes were required to adjust its transactions, by the new system these were totally dispensed with, and no notes at all are now required. Moreover, by the admission of the joint stock banks to the Clearing House, they are saved from keeping an enormous amount of notes to meet the "bankers' charges," which may safely be calculated at £500,000. These notes, therefore, are now available to the Bank to use for commercial purposes, and, consequently, are

to be considered as so much additional power of issue to the Bank, which has thus in reality acquired an increased power of issue to the amount of £1,175,000 since the Act of 1844. Up to February, 1857, seven other banks, whose aggregate issues amounted to £111,020, have ceased to issue notes, but no further power was granted to the Bank to extend its issues until this year.

42. For several months after the beginning of 1856 the Money Market continued in a state of great "tightness," and the bullion in the Bank scarcely varied. The lowest was on the 26th April, when it stood at £9,081,675; after that it gradually rose, and the rate of discount fell in summer to about  $4\frac{1}{4}$  to  $4\frac{1}{2}$ , but in October the bullion fell very considerably again, and discount rose to 7 and 8 per cent., and a pressure followed of about the same severity as in 1855, and continued with very little variation to the end of the year.

#### *The Crisis of 1857.*

43. The crisis we have just been considering was the inevitable termination of a multiplicity of derangements of the proper course of commerce. No one conversant with commercial history could fail to foresee that the entanglements of so large a portion of the public with railway speculations, and the losses caused by the failure of the harvest must produce a crisis. We have seen that this crisis gave a fatal blow to the prestige of the Bank Act of 1844, which was enacted in express contradiction to the opinions of the most experienced authorities of former times, whom it professed to follow. They had always protested against imposing a numerical limit on the issues of the Bank. The experience of the crisis of 1847, amply confirming that of 1793, 1797, and 1825, shewed that such restrictions cannot be maintained in the paroxysm of a great crisis without endangering the existence of the whole mass of commercial credit.

The crisis we are now going to describe was of a very different nature. It burst upon the world in the most unexpected manner. It gave no premonitory symptoms which were apparent to any but very watchful and experienced eyes; and, when it did come, it revealed a depth of rottenness in the commercial world which appalled every one, and proved to be of much severer intensity than that of 1847.

44. The supporters of the Act were much crest-fallen by its failure in 1847, but they took courage again after the Crimean war. The Act had been subjected to the test of a great commercial crisis and had failed. It was now subjected to the test of a war, and many of its opponents predicted that it would fail again; but it did not. Its effects during the Crimean war



were probably salutary; but the war did not proceed to such a length as to test its powers severely. Peace was restored before the resources of the country were in any manner strained.

We have said above that the rate of discount in the Autumn of 1856 was 7 and 8 per cent. It was gradually reduced, and on December 4th it was  $6\frac{1}{2}$ , and on the 18th 6 per cent., and continued so till the autumn of 1857.

These rates were, of course, very much higher than the average ones of former times, and they were one ground of accusation brought by many against the Act. But, in truth, they were its very merit. The directors had now learnt from experience, and it was these very variations which preserved the security of the Bank.

In August nothing seemed amiss to the public eye. "Things were then pretty stationary," said the Governor of the Bank—"the prospects of harvest were very good; there was no apprehension that commerce at that time was otherwise than sound, There were certain more far-seeing persons who considered that the great stimulus given by the war expenditure, which had created a very large consumption of goods imported from the East and other places, must now occasion some collapse, and still more those who observed that the merchants, notwithstanding the enhanced prices of produce, were nevertheless importing as they had done successfully in the previous years. But the public certainly viewed trade as sound, and were little aware that a crisis of any sort was impending, far less that it was so near at hand."

The bullion at this time was £10,606,000, the reserve £6,296,000, and the minimum rate of discount  $5\frac{1}{2}$ , when on the 17th August the Bank entered into a negociation with the East India Company to send one million in specie to the East.

45. Things were in this state when, about the middle of September, news came of a great depreciation of American railroad securities. It was found that for a long time they had been carrying on an extravagant system of management, and paying dividends not earned by the traffic. The system had at last collapsed, and, of course, an enormous depreciation of their stock followed, to the amount of nearly 20 per cent. It was supposed that as much as eighty millions of this stock was held in England, and that the effects of this fall would be very serious. On the 25th August the *Ohio Life and Trust Company*, with deposits to the amount of £1,200,000, stopped payment. The panic spread throughout the Union. Discount rose to 18 and 24 per cent. On the 17th October news came that 150 banks in Pennsylvania, Maryland, Virginia, and Rhode Island had stopped payment. The drain was then beginning to be severe on the Bank of England. On the 8th the bullion was

£9,751,000, the reserve £4,931,000, and discount was raised to 6 per cent. On the 12th the rate at Hamburg was  $7\frac{3}{4}$ , and bullion was flowing towards New York; discount was then raised to 7 per cent. About this time rumours strongly affecting the Western Bank of Scotland were abroad. On the 19th discount was raised to 8 per cent. The commercial disasters were increasing in America. In one week the Bank of France lost upwards of a million sterling. The bullion in the Bank had sunk to £8,991,000, and the reserve to £4,115,000. Discount was raised to  $7\frac{1}{2}$  in Paris, and to 9 per cent. at Hamburg. On the 26th a deputation from the Western Bank of Scotland applied for assistance, but the Bank was afraid to undertake so enormous a concern. The Borough Bank of Liverpool was also in difficulties, and after some time the Bank agreed to assist them to the amount of £1,500,000 on condition of their winding up. But the arrangements fell through in consequence of the Liverpool Bank closing its doors before it was completed.

46. On the 13th October a general run took place on the New York banks, in consequence of these severe measures of restriction they were obliged to adopt to protect themselves. Eighteen immediately stopped, and soon afterwards, out of 63 banks, only one maintained its payments. This immediately reacted on Liverpool and Glasgow, which were much involved with American firms. By the 19th October the failures began to be numerous in this country. Uneasiness greatly increased in London. On the 28th the principal discount house applied to the Bank for an assurance that they would give them any assistance they might require. On the 30th an express came for £50,000 (sovereigns) for a Scotch bank, part of £170,000, and £80,000 for Ireland. On the 5th November discount was raised to 9 per cent. The great house of Demistoun, with liabilities of nearly two millions, stopped payment on the 7th, and the Western Bank of Scotland closed its doors on the 9th. Failures in London were rapidly on the increase. Purchases and sales of stock were enormous, much beyond what they had ever been before. The bullion in the Bank had sunk to £7,719,000, and the reserve to £2,834,000. On the 9th discount was raised to 10 per cent. On the 10th November a large discount house applied to the Bank for £400,000. The Bank of France raised its rates to 8, 9, and 10 per cent. for one two and three months. Another English bank was assisted. The City of Glasgow Bank then stopped. On that day the discounts at the Bank were £1,126,000. On the 10th and 11th upwards of one million sterling in gold was sent to Scotland, and there was a great demand from Ireland. On the 11th Sanderson and Co., the great bill brokers, stopped payment, with deposits of  $3\frac{1}{2}$  millions. On the 12th the discounts at the Bank were £2,373,000. On the 11th, in consequence of

these sudden demands for Scotland and Ireland, the bullion was reduced to £6,666,000, and the reserve to £1,462,000.

47. As the failures in London became more tremendous, discounts became more and more contracted. The stunning news of the stoppage of so many banks created a banking panic. Private banks stopped discounting altogether. The only source of discount was the Bank of England. The public, however, and the directors knew that the precedent of 1847 must be followed, and, though they made no direct application to the Government for the suspension of the Act, they laid the state of the Bank continually before them, and continued to discount as if they knew the Act must be suspended. At last private persons, being unable to obtain discounts, began to make a run for their balances. When universal ruin was at last impending, the Government, on the 12th November, sent a letter to the Bank to say, that if they should be unable to meet the demand for discounts and advances upon approved securities, without exceeding the limits of their circulation prescribed by the Act of 1844, they would be prepared to propose to Parliament a Bill of Indemnity for any excess so issued. In order, however, to prevent the temporary relaxation of the Act from being extended beyond the necessities of the case, the rate of discount was not to be reduced below their present rate, 10 per cent.

48. The issue of this letter immediately calmed the public excitement. But, on the evening of the 12th, the total banking reserve of the Bank and all its branches was reduced to £581,000. Truly, said the Governor of the Bank, to the question 132, "Supposing the letter in question had not been issued on that day, would the Bank, on the morning of the 13th, have been in a condition to continue its discounts?—*No; certainly not.*

"133. Would it not have been compelled to announce it could not discount any more commercial paper?—Yes, or nearly so.

"138. Is it not likely that the announcement of the cessation of discounts at the Bank of England would have increased the alarm of the mercantile public in London?—Materially.

"139. Would not an increased alarm on the part of the mercantile public have naturally led to an increased demand upon the bankers?—It would have led to immediate failures, and would so far have lessened the quantity of bills coming for discount by the number of bills which were actually rendered unavailable.

"140. Without reference to bills, do you not think it likely that there would have been increased demands upon the bankers, which would have compelled them to withdraw a portion of their deposits from the Bank of England?—I think certainly that in part there would have been."

To shew the state the Bank was reduced to, the Governor gave in a paper to the Committee with the following figures, shewing its reserve on the 11th and 12th November:—

On Wednesday, November 11th, the reserve consisted of—

	£	£
Notes in London.....	375,005	
„ at Branches .....	582,700	
	<hr/>	957,715
Gold coin in London .....	310,784	
„ at Branches .....	97,665	
	<hr/>	408,449
Silver coin in London.....	44,046	
„ at Branches .....	51,948	
	<hr/>	95,994
		<hr/>
Total Reserve.....		<u>£1,462,153</u>

On Thursday, November 12th, at night, the reserve consisted of—

	£	£
Notes in London .....	68,085	
„ at Branches .....	62,545	
	<hr/>	130,630
Gold coin in London .....	274,953	
„ at Branches.....	83,255	
	<hr/>	358,208
Silver coin in London .....	41,106	
„ at Branches .....	50,807	
	<hr/>	91,913
		<hr/>
Total Reserve .....		<u>£580,751</u>

That is to say, that the total reserve in London on the evening of the 12th was £384,144. Such were the resources of the Bank of England to commence business with on the morning of the 13th! Truly, said the Governor, it must have entirely ceased discounting, which would have brought an immediate run upon it; and the bankers' balances alone were £5,458,000. It is easy to see that the Bank could not have kept its doors open an hour.

49. The Governor of the Bank said that the panic of 1857 was not so great as that of 1847, but the real commercial pressure was more intense. This is proved by the fact, that while in the former year the issue of the letter immediately allayed the panic, and by that means stopped the demand for

notes, and there was only required an issue of £400,000 in notes to surmount all difficulties, which did not exceed the statutory limits; in 1857 the issue of the Government letter produced no cessation of demand for advances. The statutory limit was £14,475,000 of notes issued on securities, and there were issued in excess of these—

	£		£
Nov. 13 .....	186,000	Nov. 23 .....	397,000
„ 14 .....	622,000	„ 24 .....	317,000
„ 16 .....	860,000	„ 25 .....	81,000
„ 17 .....	836,000	„ 26 .....	243,000
„ 18 .....	852,000	„ 27 .....	342,000
„ 19 .....	896,000	„ 28 .....	184,000
„ 20 .....	928,000	„ 30 .....	15,000
„ 21 .....	617,000		

On the meeting of Parliament an Act was passed permitting a temporary suspension of the Bank Act till February 1st, 1858, provided the directors did not reduce their discount below 10 per cent. On the 24th December they reduced it to 8 per cent., thereby reviving the operation of the Act.

In 1858 the inevitable consequence followed from the great crash of 1857. The enormous mass of false trading being cleared away money naturally flowed into the Bank, and the quantity of bullion gradually and steadily increased up to the end of the year. The Bank now learnt to adopt much higher rates of discount than formerly. In 1847 it kept the rate at 5 per cent. while the bullion was under £10,000,000; in 1858 the rate of 5 per cent. was maintained till the bullion exceeded £15,000,000—a great advance in sound principle.

50. In our *Dictionary of Political Economy*, Art. *Banking in England*, § 254, published not long after this great crisis, we said:—"This year (1858) passed away in great tranquillity, persons not yet having forgotten the lesson of 1857. But we cannot doubt, judging by all former experience, that an uneasy spirit will soon be abroad again; we cannot doubt that the brood of speculators are now anxiously casting about to see if they can plant the seeds of the next crisis, and it is the duty of those who are now at the head of monetary affairs to be on the watch to counteract all such attempts as they can detect; and, in the meantime, the most interesting question at the present time, in a banking point of view, is—What is to be the next mania?"

Time has given an answer to this question. There is nothing special to arrest our attention during the next few years. The rates of discount continued generally moderate through 1859 and 1860. In February, 1861, it rose for a short time to 8 per cent., but soon subsided again. The unhappy civil war in America then



being imminent, created natural apprehension as to our cotton supplies, and most persons could foresee that this would lead to monetary complications. These, however, were for the future. Through 1861 and 1862 the Money Market was, generally speaking, extremely easy, the issue of paper money by both the belligerent Governments having the inevitable effect of driving bullion over to this country; consequently trade flourished amazingly, and the price of money was very easy.

51. And so things went on till October, 1863, when every one began to foresee a disturbance in the Money Market. In the first place, the rapid rise in the price of cotton, from the failure of the supply from the Southern States of America, forced up the price to a great height. The world had to be searched to produce the supply. Immense quantities came from the East Indies, from Egypt, and from the Brazils, besides other quarters. This vast trade being suddenly created, had to be paid for in cash, as we have explained in the chapter on Exchanges. Consequently a great drain of silver began towards the East, which was obtained from Paris and Hamburg, the great marts for silver, as London is for gold. The Italian Government, too, contracted a loan at this period.

The law of limited liability began to operate at the same time, and the number of new companies being formed under it inspired uneasiness. The Bank of France lost great quantities of specie. The Bank of England raised its rate twice in one week, from 5 to 6, and then to 7. The Bank of France also raised its rate to 7, and spoke of issuing 50 franc notes; on the 2nd of December the Bank raised its rate to 7, and on the 3rd to 8. At the same time a great fall took place in the Russian Exchange, in consequence of certain Government measures not having succeeded. In consequence of these circumstances the reserves of the Bank were considerably strengthened after a short time. But in January, 1864, a fresh export of specie began and continued with great severity till the middle or end of May, so that discount varied from 8 to 7, and 6, and again up to 9. In May the Bank again raised its rate twice in one week to 9. With a few fluctuations this great pressure continued all through the summer. Having fallen to 6 per cent. in June, it gradually rose again to 9 in September. After that it gradually fell to 3 per cent. in June, 1865.

52. Already in March, 1864, the numbers of new companies formed under the limited liability principle gave great uneasiness. Up to that time it appeared there were 263 companies formed with a nominal capital of £78,135,000, out of which 27 were banks, and 15 discount companies. In August, 1864, the long-dated acceptances of the new financial companies began to

press on the market, and lay the foundations of the crisis of 1866. In April the Bank of England joined the Clearing House, thereby still further economizing the use of Bank notes.

On the 8th of September the Bank raised its rate to 9 per cent., and this measure stopped the foreign drain, lowered the price of foreign commodities, and strengthened their reserves. The price of cotton was greatly lowered owing to the expected peace in America, and this rise in the rate of discount, striking on a falling market, produced an immense curtailment of business in all directions.

*The Great Crisis of May, 1866.*

53. On the 20th June, 1865, the rate of discount reached its minimum, 3 per cent. On the 5th August it was raised to 4, and then gradually and continuously, with very slight fluctuations, till it culminated in the crisis of May, 1866.

In November a strong foreign drain began, the exchange fell, and, this growing stronger in January, 1866, the Bank raised its rate on the 6th, to 8. This had some effect in arresting the drain, but it did not bring in fresh supplies from abroad. At this period the National Provincial Bank began to Bank in London, and, in consequence, were obliged by law to give up their issues, which amounted to £442,371. Several other banks having ceased to issue, since the Bank of England had been last authorised to increase its issues, it was now permitted to increase its issues on securities to £15,000,000. The high rate of interest here caused a good deal of foreign money to be invested in long-dated bills.

Towards the end of January the difficulties began, which brought on the panic in May. Future investigations will no doubt throw a clearer light on these circumstances, and we had better defer discussing them till we have more authoritative revelations. But it may be stated generally that these Finance and Discount Companies had advanced enormous sums of money to promote great enterprises such as railways, and other schemes, which could never repay their cost until they were completed, which might take years to do. The first Company that went was the Joint Stock Discount Company in February. This spread a general feeling of alarm, as the doings of this Company were merely a type of a large amount of business which was known to have been engaged in by numerous other companies. In March Barne's Bank at Liverpool stopped payment, with liabilities of upwards of 3½ millions. Several great railway contractors suspended, involving in discredit the companies with whom they were known to have "financed."

54. On the 3rd of May the Bank raised its discount to 7 per cent. Every one now felt that the long-dreaded crisis was at last

come. The air was thick with rumours. Every one knew now that it was merely a question of weeks, perhaps of days, when the storm should burst. On the 8th of May the Bank raised its discount to 8 per cent. The advocates of the Bank Act, in their usual strain, proclaimed that on no account whatever must the Act be suspended. Such a thing was not to be thought of. Credit was then tottering and received a blow from the report of a speech of the Emperor Napoleon III., said to have been addressed by him to a meeting at Auxerre, in which he expressed his detestation of the treaties of 1815. This, in the feverish political state of the Continent, was held to mean that he was determined on war.

It is possible that this excitement might have passed off, as the Bank had a fair reserve in the banking department, and abundance of bullion in the issue department. On the 9th of May the Bank raised the rate of discount to 9 per cent.. On this day, however, occurred the event which it is probable produced the great panic. The Mid-Wales Railway Company had accepted bills of exchange to the amount of £60,000, which were held by three parties—Bateman; Overend, Gurney, & Co.; and the National Discount Company. The Company had dishonoured the bills, and actions had been brought against them by the three parties above named. As ill fortune would have it, judgment in these actions was delivered on the 9th of May, in the very height of the excitement. The Court of Common Pleas held unanimously that the Railway Company had no authority whatever to accept such bills, and, consequently, that they were absolutely invalid, and so much waste paper. For some time back it was known that Overend, Gurney, & Co. were very deep in with contractors and other parties; moreover, they held forged bills to a large amount of another firm. Their shares had been pressed on the market, and were going down. This fall in their shares produced a steady withdrawal of their deposits. The judgment in the case of the Mid-Wales Railway converted this into a complete run; and, on the afternoon of Thursday, May 10th, the terrible news spread through London that the great establishment of Overend, Gurney, & Co. had stopped payment, with liabilities exceeding £10,000,000—the most stupendous failure that ever took place in the City. This news only spread about after banking hours, but every one could foresee what the effects would be next morning. The Chancellor of the Exchequer said next evening in the House that the oldest inhabitants of the City declared that the excitement was without a parallel. Early in the evening he was questioned as to whether Government had authorized the Bank to issue notes in excess of the legal limit. The Chancellor replied, that he had not yet done so, but that he had received a deputation from the private bankers, and was expecting one from the Joint Stock Banks, on the subject. Very

soon afterwards this came, and the Members of the Cabinet, having retired to a Committee room and consulted, the Chancellor, later in the evening, announced, amidst the loudest cheering from all parts of the House, that the Government, following the precedents of 1847 and 1857, had informed the Bank that, if they thought proper to make advances beyond the limit, the Government would bring in a Bill of Indemnity. He also stated that the Bank had advanced £4,000,000 that day.

55. The announcement of the Suspension of the Bank Charter Act, produced the best effects next morning. The Bank raised its rate to 10 per cent., and everything was calmed down, and though subsequently to this some other stoppages took place, yet the knowledge that the Bank had power to make advances on good securities abated the panic. On the 18th of May the Chancellor of the Exchequer stated that the Bank had advanced £12,225,000 in five days. The sum that was paid away during the panic can probably never be known, but it was something perfectly fabulous. It has been said, though, of course, we know not on what authority, that one great bank alone paid away £2,000,000 in six hours. The establishments that stopped payment were as follows, with their liabilities, according to their last published balance-sheet, though, of course, these were greatly diminished during the panic:—

	Paid-up Capital.	Reserve.	Liabilities.
Overend, Gurney, & Co. ....	£1,500,000	—	£11,000,000
English Joint Stock Bank ...	150,000	£6,000	not stated.
Oriental Commercial Bank...	375,000	49,500	—
New Zealand Bank .....	500,000	115,000	1,904,619
Hallet, Ommañney, & Co. ...	—	—	238,000
Imperial Mercantile Credit ...	500,000	—	not stated.
Commercial Bank of India ...	1,000,000	238,802	—
European Bank.....	644,490	31,393	2,112,838
Robinson, Ceryton, & Co. ...	—	—	—
Alliance Financial Company	20 000	—	—
Bank of London .....	400,000	302,324	4,335,877
Consolidated Bank .....	600,000	71,808	3,817,999
Agra and Masterman's .....	1,500,000	500,000	15,582,002

Besides these stoppages, several other banks connected with the East have confessed to enormous losses. Thus, the Bank of Hindostan, China, and Japan states its profits at £23,485, and its losses at £87,794, with a further expected loss of £70,000; the Asiatic Banking Company states its profits at £61,494, and its losses at £142,000; the Bank of Queensland states its profits at £10,373, and its losses at £42,071. What losses the other banks have made, we, of course, have no means of knowing, but they are probably heavy. In consequence of the great stoppage of trade, it may be expected that the next balance-sheets of the different banks will shew great diminutions in "deposits" below the preceding ones.



56. One remarkable circumstance, however, has occurred during this pressure and panic, which deserves and requires special investigation, and of which we doubt whether its true causes are fully understood yet. Upon examining the table given in Chapter xii., shewing the variations in the rate of discount by the Banks of England and France during the last few years, it will be seen that very often they were exactly the same, sometimes a difference of  $\frac{1}{2}$  per cent., and very seldom, indeed, more than one per cent. difference between them. Since the beginning of this year, however, the difference has been constantly 2 per cent., and it gradually increased to 3, 4, and even 6 per cent. All the while that the storm was visibly gathering and then raging in England, the Bank of France has been in a state of the greatest serenity. On March 21st, when discount in England for a very short period was lowered to 6 per cent., in France it was  $3\frac{1}{2}$ , and while it gradually rose here to 7, 8, 9, and 10, it only advanced to 4 per cent. in France, and has remained steadily at that rate for a month. More than that, while these high rates in England have been unable to prevent a severe foreign drain, the Bank of France has been rapidly gaining large quantities of bullion, while discount was only 4 per cent. At the present moment, while discount is 10 per cent., here the bullion in the vaults of the Bank is only £11,878,775, the bullion in the Bank of France exceeds £22,000,000.

57. This most remarkable and, indeed, unprecedented state of matters has actually led many persons to question the truth of the law, that a high rate of discount attracts bullion from foreign countries, and keeps it in the country, and to maintain that the rates ought to be quite independent of each other. To suppose, however, that a law is false which is founded on the widest and long-continued experience in every country, shews a hasty style of argument. When the moon ceases to sway the tides, then—but not till then—will the rate of discount cease to attract the flood of bullion. To argue from the single case of this crisis that the law is false, is just as absurd as if a man, seeing a bar of iron falling down to the earth, and a balloon rising up from the earth, were to maintain that the law of gravitation is false. Or if he were to say that there is no such thing as gravity, because a drop of water, or a fly, can adhere to the ceiling. The law itself is perfectly true, and acts universally, but there may be other circumstances which, on particular occasions, may counteract its effects. In the chapter on Exchanges we pointed out that there are several causes which influence the flow of bullion, which, at any time, may act in the same or opposite directions. Of these the rate of discount is only one, and at particular times it may be overpowered by some other consideration. Now, with respect to the rate of



discount here, the Money Market was liable to more severe disturbance than in France, on account of the multitude of new companies, especially the new Finance Companies, and also the connection of so many of our Banking Companies with the East. The quantity of "finance" paper afloat created the greatest uneasiness here for a very considerable time, and this was well known abroad. It was fully expected that there would be great disasters among the banks, and, as if these failed it was expected that merchants would fail too, the rate of discount failed to attract supplies, because it was feared that the whole principal would be lost. In consequence of this, great quantities of long-dated bills in England were hurried over here and turned into cash, which was exported at any sacrifice. It was just the same in 1839. It was generally expected then that the Bank of England was going to stop payment. The consequence was, as stated in Chapter ix., § 75, that long-dated bills held abroad were hurried over here for immediate realization; and the proceeds withdrawn as speedily as possible. This, of course, would equally prevent specie being imported here, notwithstanding the high rate of discount. It is perfectly well known that this cause operated to a great extent during the recent crisis. However, now that all danger of this has passed away, the rate of discount is producing its effect, and gold is at the present moment rapidly flowing in, thus indicating the entire truth of the law.

With respect to the Bank of France the explanation is also easy. There has been no commercial crisis there, but, unhappily, strong expectations of war. Consequently, mercantile enterprise has been curbed, and specie has naturally flowed into the vaults of the Bank of France. Also, in anticipation of war, the Government of Italy has suspended cash payments and adopted paper money. This, of course, has produced its natural effect in driving specie out of the country, and it has also naturally first gone to the Bank of France.

These circumstances are quite sufficient to explain the remarkable phenomena alluded to.

As the authorisation to exceed the legal limits of issue will probably lead to a Parliamentary inquiry, we may expect that fresh light will be thrown on the recent crisis.



CHAPTER XI.

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ON SOME THEORIES OF CURRENCY.

“On subjects concerning which speculative minds are still divided, a writer does but half his duty by stating his own doctrines, if he does not also examine, and, to the best of his ability, judge, those of other thinkers.”—*J. S. Mill*.

## CHAPTER XI.

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### ON SOME THEORIES OF CURRENCY.

EXPLANATION OF JOHN LAW'S THEORY OF MONEY AND ITS FUNDAMENTAL FALLACY—ALL ATTEMPTS TO REDUCE LAW'S THEORY OF MONEY TO PRACTICE MUST NECESSARILY TERMINATE IN RUIN—ALL THEORIES OF CURRENCY WHICH ATTEMPT TO FOUND A CIRCULATING MEDIUM UPON COMMODITIES, ARE FORMS OF LAWISM—SPECIE IS THE ONLY TRUE BASIS OF A CIRCULATING MEDIUM—SPECIE AND CREDIT, PRESERVING AN EQUALITY OF VALUE WITH SPECIE, ARE ITS ONLY TRUE LIMITS—FALLACY OF THE BANK THEORY OF REGULATING THE PAPER CURRENCY BY THE DISCOUNT OF MERCANTILE BILLS—THE RATE OF DISCOUNT IS THE ONLY TRUE METHOD OF REGULATING THE PAPER CURRENCY—FALLACY OF A PREVALENT DOCTRINE OF PAPER ISSUES.

1. It now becomes our essential and most important duty to investigate some theories of currency, which have acquired great celebrity, not only from their historical interest, as having led to some of the most extraordinary and heartrending public calamities on record, but because they are still extensively believed in at the present day. It is of essential importance, not only to lay the true foundations of monetary science, but also to point out the fundamental fallacies upon which some specious, but fatally delusive, theories rest, which have brought the most disastrous consequences upon those nations which have adopted them, as will always be the case when the eternal laws of nature are systematically and perseveringly violated.

2. The first of these theories we shall designate as LAWISM, not because John Law was the original deviser of it, but because he was the first who wrote the most formal treatise on it, and he had the opportunity of carrying it out on the most extensive scale. His name, therefore, must always be most prominently associated with it; and it is one so specious, but so dangerous, and so widely prevalent at the present time, that it requires to be branded with a distinctive name, and to be combated with all power of argument that can be brought against it.

3. The question shortly stated is this. All persons, except those who advocate an inconvertible paper currency, agree that



a paper currency must represent some article of value, and bullion has been generally chosen for that purpose. Now, the idea has occurred to a great many persons—If it is only necessary that a paper currency should represent some article of value, why should it not represent any or all articles of value, such as land, corn, silk, or any other commodities, and, among others, the public funds? And this has actually been tried in several instances, yet they have universally failed, and in many cases have been attended with the most dreadful calamities. Now, as this has uniformly happened, and, as we shall shew further on, it must happen, it necessarily follows that there must be some radical error in the principle, and that it must violate some great law of nature. And this is beyond all comparison the most momentous problem in Political Economy—Why is it improper to issue a paper currency on any other basis than that of bullion? All the most eminent British statesmen have instinctively resisted such proposals, although repeatedly pressed to do so. No doubt it has been a most fortunate instinct for the country, but all their reasonings on the subject, if only pursued to their legitimate consequences, tend to that result. The Bank Act of 1844 was the first occasion on which a small bit of this theory was introduced, which, if only followed out to its legitimate conclusion, would produce in this country the horrors of the Mississippi scheme in France. But though the British Parliament, by a blind, unreasoning instinct, has always, with the exception just named, resisted such fatal advice, this will not satisfy the demands of science. Science imperatively demands a reason *why* such a plan is wrong; she will not be satisfied with a simple dogmatic assertion that it is wrong, even though that dogma may be right, but she must know the reason why, and, until a true, scientific reason is given why such plans are fatal, there will be a constant demand for them.

4. It is, moreover, the thing which has brought the name of Law into such unhappy notoriety. Law has, in many respects, very great merit as a writer. In many respects he had clearer and sounder views on monetary science; he had infinitely more practical insight and scientific knowledge of what he was writing about, than the most eminent of modern political economists. In his various writings is to be found the refutation of all the absurd follies of the Government and of the Bank of England in 1811. But all this was marred by a single defect. He was the great advocate of what is now the popular cry—basing a paper currency upon any article of value beside bullion. The only difference between him and our greatest statesmen is that he carried out their arguments to their legitimate conclusion. He had the opportunity of carrying this theory into effect, and the result has been to obscure all his

other merits, and brand him for ever as a charlatan. What, then, was his error?

5. Upon sifting his theory to discover his error, we shall obtain one of the most beautiful triumphs of pure reasoning to be found in any science. We shall find that the plausible scheme, which we shall designate by his name, is founded upon a direct contravention of the fundamental conception of the nature of a currency which we have established in this work, and the proposition which directly flowed from it, viz., *that where there is no debt, there can be no currency*. We shall find that these awful monetary cataclysms which have shaken nations to their foundations, producing calamities more fell than famine, tempest, or the sword, have been brought about by attempting to carry into practice a philosophical fallacy which involves a contradiction in terms.

6. It is impossible to say who first invented the theory we are going to notice; in fact, it must have sprung up indigenously among almost any people who began to form theories of paper currency. Several persons about the same time seem to have hit upon it. The earliest we know of was a certain Mr. Asgill, a Member of Parliament, who paid much attention to commercial questions. The most notorious precursors of Law were Dr. Hugh Chamberlain, who brought forward a rival scheme to the Bank of England in 1693, and Mr. Briscoe, one of the chief promoters of the Land Bank in 1696. Chamberlain's ideas will be noticed a little further on. He strongly accused Law of having stolen his ideas from him, which Law strenuously repudiates, and points out the distinction between them, and it must be allowed that Law's ideas were not so extravagant as Chamberlain's. Law first published his theory in a tract, called "Money and Trade Considered," at Edinburgh, in 1705. He was the son of a goldsmith, and of dissipated habits, but of an extremely acute intellect; and, up to a certain length, his views are sagacious and correct—much more so, indeed, than those of many writers of the present day. He observed the extreme poverty and barbarousness of Scotland, which he thought might be cured by bringing an additional quantity of money into the country; and, as silver was scarce, he attempted to devise a scheme for providing a substitute for it.

7. He begins by many very sound and acute remarks on the value of commodities, and the causes of their change of value. He describes the qualities which fitted silver to be used as money, above every other commodity. He attributes the very inconsiderable trade of Scotland to the small quantity of money she possessed. This is the first fundamental fallacy, because the

fact was, it was just the reverse; Scotland had little money *because* she had little trade. He, however, perceived the fallacy of lowering interest by law. He then goes on to consider the various means which have been employed to increase the quantity of money. He says that some countries have raised money in the denomination; some have debased it; some have prohibited its export under the severest penalties; some have obliged traders to bring home bullion in proportion to the goods they imported. But he says that all these measures have been futile and vain, and none of them have been found to increase or preserve money. He then says that the only effectual method hitherto discovered for the increase of money, was the erection of banks. He then describes various banks. Some made it a principle to issue no more notes than they had of actual bullion. He then mentions the Bank of England, and the superiority of its notes over those of the goldsmiths. He then describes the Bank of Scotland, and says that it issued notes to four or five times the value of the money in the Bank, which he very justly says were equivalent to so much additional money. He then points out the absurdity of supposing that raising the denomination of the money added to its value: that if the shilling was raised to 18d., it paid debts by two-thirds of what was due, but did not add to the money; "for it is not the sound of the denomination, but the value of the silver is considered." The wonderful philosophers of 1811, no doubt, looked down with prodigious disdain upon Law, but they might have studied him with advantage. He then points out, with much detail, the fraud and inutility of tampering with the currency. He describes the additional effect which credit may give to the money; but says that credit which promises a payment of money, cannot well be extended beyond a certain proportion it ought to have with the money. Nothing can be more judicious and sound than his remarks upon credit—that it must always vary in proportion to the metallic basis it is built upon; and up to this point, his sagacity and penetration are in advance of the doctrines of a century later; but here is the boundary, after which he plunges into that fatal and delusive fallacy, which is the distinctive feature of what we denominate LAWISM.

8. Thinking that money was so scarce in Scotland that any credit that could be built upon it would be insignificant, he says:—

"It remains to be considered, whether any other goods than silver can be made money with the same safety and convenience.

"From what has been said about the nature of money, it is evident that *any other goods which have the qualities necessary in money*, MAY BE MADE MONEY EQUAL TO THEIR VALUE with safety and convenience. There was nothing of humour or fancy

in making silver to be money; it was made because it was thought best qualified for that use.

"I shall endeavour to prove that another money may be established, with all the qualities necessary in money in a greater degree than silver."

9. He then proceeds to shew at great length that silver had some peculiarities that disqualified it from being the best substance to form money of; that it varied in value; that it had increased much faster in quantity than the demand for it, and had, therefore fallen much in value. In fact, he tries to prove that silver had varied in value more than any other kind of goods, within the last two hundred years; that goods would always maintain a uniformity of value because they only increased in proportion to the demand; that land would always rise in value, because the quantity would always remain the same, but the demand would continually increase; but that silver would always fall in value, as the quantity increased faster than the demand.

10. Law then proceeds to deny that he had taken his ideas from Chamberlain, of which the latter had accused him; and it must in candour be admitted, that his ideas were many degrees less mad than those of Chamberlain. Law asserts that he had formed his schemes many years before he had seen any of Chamberlain's papers:—"Land, indeed, is the value upon which he founds his proposals, and 'tis upon land that I found mine; if for that reason I have encroached upon his proposal, the Bank of Scotland may be said to have done the same. There were banks in Europe long before the doctor's proposal, and books have been written on the subject before and since. The foundation I go upon has been known so long as money has been lent on land, and so long as an heritable bond has been equal to a quantity of land."

11. The difference between Chamberlain's theory and Law's was this. Chamberlain maintained that if land was mortgaged for 100 years, it was a good security for 100 times its annual value; so that, if a man had landed property worth £1,000 a-year, and if he mortgaged it for 100 years to the State, the State might issue notes to him to the amount of £100,000, which were to be declared equal in value to silver, and made legal tender for their nominal value. Now, if this theory be true, there is no good reason why land should be pledged for only 100 years; why not for one million years? which would do the thing on a somewhat more magnificent scale. But what need of stopping there? Why not pledge it to all eternity? And then every inch of property might be covered with paper notes, and they might be piled high enough



to reach the moon, where the deviser of this scheme would probably find his lost wits. Law properly points out that the fallacy of this theory was, that Chamberlain assumed that the value of £100 to be paid 100 years hence, is still £100. He says, "No anticipation is equal to what already is; a year's rent now is worth fifteen years' rent fifty years hence, because that money lent out at interest by that time will produce so much." But says Lord Macaulay, "On this subject Chamberlain was proof to ridicule, to argument, even to arithmetical demonstration. He was reminded that the fee simple of land would not sell for more than twenty years' purchase. To say, therefore, that a term of 100 years was worth five times as much as a term of twenty years, was to say that a term of 100 years was worth five times the fee simple; in other words, that a hundred was five times infinity. Those who reasoned thus were refuted by being told they were usurers; and it should seem that a large number of country gentlemen thought the refutation complete."

12. Law's theory was to calculate the value of the fee simple of the land at twenty years' purchase, and to coin notes to the value of that amount, and advance them to the owner of the land. This plan, therefore, had a limit, however absurd it was. It was bounded, in the first instance, by the value of the land expressed in silver money, but Chamberlain's had positively no limit at all to carry it out to its full length; the advance might be made to infinity, consequently, in mathematical language, we should say that Chamberlain was *infinitely* more mad than Law.

13. Law shewed that notes issued upon Chamberlain's plan, would immediately fall to a heavy discount; but yet he says, that though £500 of these notes were only equal to £100 in silver, yet the nation would have the same advantage by that £500 in notes, as if an addition of £100 had been made to the silver money.

"So far as these bills fell under the value of silver money, so far would exchange with other countries be raised.† And if goods did not keep their price, *i. e.*, if they did not sell for a greater quantity of these bills, equal to the difference betwixt them and silver, goods exported would be undervalued, and goods imported would be overvalued.

"The landed man would have no advantage by this proposal, unless he owed debt, for, though he received £50 of these bills for the same quantity of victual, he was in use to receive £10

† This is the first occasion that we are aware of on which the great principle, that a depreciation of the paper currency, would produce a fall in the foreign exchanges, which was so ardently contested in 1811, and subsequent years, is asserted. And it has all the more merit, that it is a prediction and not an observation.



silver money; yet that £50 would only be equal in value to £10 of silver, and purchase only the same quantity of home or foreign goods.

"The landed man who had his rent paid him in money, would be a great loser, for, by as much as these bills were under the value of silver, he would receive so much less than before.

"The landed man who owed debt, would pay his debt with a less value than was contracted for, but the creditor would lose what the debtor gained."

Oh! that the philosophers of 1811 had only pondered over this extract from John Law.

14. Law then shews that—

"Notwithstanding any Act of Parliament to force these bills, they would fall much under the value of silver; but allowing that they were at first equal to silver, it is next to impossible that two different species of money shall continue equal in value to one another.

"Everything receives a value from its use, and the value is rated according to its quality, quantity, and demand. Though goods of different kinds are equal in value now, yet they will change their value from any unequal change in their quality, quantity, or demand."

"And as he leaves it to the choice of the debtor to pay in silver money, or bills, he confines the value of the bills to the value of the silver money, but cannot confine the value of the silver money to the value of the bills, so that these bills must fall in value as silver money falls, and may fall lower, may rise above the value of these bills, but these bills cannot rise above the value of silver."

15. Law succeeds, with great skill and acumen, in exposing the wild insanity of Chamberlain's plan, and truly predicts the results which would follow from it, or, at least some of them, for there are many important ones he has omitted. The exact consequences which he predicted were manifested in Ireland and England a century later, and the sentences we have quoted, if we did not know their origin, might have been supposed to have been written to rebuke the folly of the directors of the banks of Ireland and England, and the mercantile witnesses of 1804 and 1810. But having demolished Chamberlain, he comes to his own proposal, which he says is "to make money of land equal to its value, and that money to be equal in value to silver money, and not liable to fall in value as silver money falls." He then says, "ANY GOODS THAT HAVE THE QUALITIES NECESSARY IN MONEY, MAY BE MADE MONEY EQUAL TO THEIR VALUE. Five ounces of gold is equal in value to £20, and may be made money to that value; an acre of land, rented at two bolls of victual, the

victual at £8, and land at twenty years' purchase, is equal to £20, and may be made money equal to that value, for it has all the qualities necessary in money."

16. In this sentence is concentrated the whole essence of that eternal delusion, so specious and plausible, and so fatal, which we designate as **LAWISM**. It is indeed nothing but the stupendous fallacy *that money represents commodities, and that paper currency may be based upon commodities*. This delusion is deeply prevalent in the public mind at the present day, and probably there are few persons, except those who have studied the true philosophical principles of Political Economy, whose views are not deeply tainted with this infection. No man who does not thoroughly understand the great fundamental doctrine established by **Turgot** and others, *that money does not represent commodities*, can ever have sound ideas on this subject. **MONEY DOES NOT REPRESENT COMMODITIES AT ALL, BUT ONLY DEBT, OR SERVICES DUE, WHICH HAVE NOT YET RECEIVED THEIR EQUIVALENT IN COMMODITIES.** Now, the views of Law are much more extensively prevalent than is generally supposed. All those who think that there is any necessary connection between the quantity of money in a country and the quantity of commodities in it are influenced by them. Take the case of a private individual. Is there any necessary relation between the quantity of money he retains and the quantity of commodities he purchases? The quantity of money he has, is just the quantity of debt—of services due to him—which he has *not yet* parted with for something else. It is the quantity of power of purchasing commodities he has over and above what he has already expended. And the quantity of money a nation possesses is simply the quantity of accumulated industry it possesses over and above all commodities, but they have no relation whatever to each other. Now, money does not represent commodities, but it represents that portion of a man's industry which is preserved for future use. Whatever a man earns is the fruit of his industry, money included; and none of these separate items *represents* anything else, though it may be *exchanged* for other things. Now, the value of money depends upon its relations to what it represents, namely, debt, and not to commodities. If money, or currency, increases faster than debt, or services due, it immediately causes a diminution of its value. If debt increases faster than money or currency, then the value of money is raised. The infallible consequence, therefore, of an increase of currency, without a corresponding increase of debt, is to change the existing proportion between debt and currency, and to cause a depreciation of the latter commensurate to the changed proportion. The necessary and inevitable consequence, then, of issuing vast quantities of paper currency on

the assumed value of property, is simply to cause a total subversion of the foundation of all value and of all property, and to plunge every creditor into irretreivable ruin.

17. In fact, a moment's consideration will shew that the theory of basing a paper currency on commodities, involves this palpable contradiction in terms, THAT ONE CAN BUY COMMODITIES AND ALSO HAVE THE MONEY AS WELL. When a man buys commodities with money, he gives either a portion of his own industry represented by that money, or a portion of some one else's industry who gave him the money. But it is quite clear that *he cannot buy the commodities and keep his money as well*. It is exactly the same with a nation. A nation cannot buy commodities and have the money it bought them with as well, which is the principle necessarily involved in issuing paper currency as the representative of commodities. But the money of the nation is the mode and form in which the accumulation of industry which has not yet been spent in commodities is preserved; and if a nation wants other commodities besides what it has got, it must pay for them either with money, or with the goods it has already. The idea of basing paper currency upon commodities is just as wild and absurd as if England were to sell her cotton goods to America for coin, and then demand back her cotton goods. The only result of such an attempt carried out into practice must be the most tremendous convulsions, and destruction of credit and all monetary contracts.

18. Law, as we have seen, immediately saw through it, and exposed the ridiculous absurdity of Chamberlain's proposal. His own was that the value of all the land in Scotland should be estimated at 20 years' purchase, and that a parliamentary commission should be appointed with power to issue an inconvertible paper currency to that amount. He says, "The paper money proposed will be equal in value to silver, for it will have a value in land pledged equal to the same sum of silver money that it is given out for. \* \* \* This paper money will not fall in value, as silver money has fallen or may fall."

19. We must, therefore, be careful to be just to Law. He was no advocate of an unlimited inconvertible paper currency. Quite the reverse. But, seeing that a convertible paper currency could only be based upon bullion to a certain limited extent, preserving its equality in value with bullion, his idea was to base a paper currency upon some other article of value. And he thought that it might preserve its equality in value to silver on an independent basis. His idea was, that it was only necessary to have it represent some article of value. But this attempt was contrary to the nature of things. His paper currency,

though avowedly based upon things of value, had exactly the same practical effects as if it had been based upon silver. It became redundant, and swamped everything. And the reason is plain. It was a violation of that fundamental principle we have obtained—"Where there is no debt there can be no currency." And the fresh quantities of currency issued on such a principle only represent the previously existing amount of debt, and then suffer a necessary diminution in value. The necessary and inevitable consequence, then, of issuing vast quantities of paper currency on the assumed value of property, is simply to cause a total subversion of the foundation of all value, and of all property, and to plunge every creditor into irretrievable ruin.

20. To give a full account of Law's banking career in France, would far exceed our limits, and to give an imperfect one would be of no use. We must, therefore, content ourselves with referring those of our readers who want information on the subject to our *Dictionary of Political Economy*, Art. *Banking in France*, where a full account of Law's scheme is given. It may be sufficient to say that his career, like his writings, is divided into two distinct portions. His writings are on BANKING and PAPER CREDIT, and his scheme for PAPER MONEY, which are quite distinct from each other. Nothing can be sounder, or more judicious, than the first. He clearly saw that paper credit must be limited by specie—his scheme was to create a PAPER MONEY, beyond the limits of Paper Credit, based on specie, which he expected would maintain an equality of value with specie. Multitudes of people have thought the same, and multitudes of people believe in it to the present hour. In 1705 the Parliament of Scotland, fortunately, turned a deaf ear to Law's specious proposal of creating Paper Money, based upon land. In 1855 the representatives of commerce in the same city, which had rejected Law's plan 150 years before, memorialized the Government, and "do most emphatically object to the plan of restricting the security (upon which the paper currency is based) to the possession of gold alone," which is simply Lawism.

Nothing could be more extraordinary than the restoration of prosperity, caused by the foundation of Law's Bank in 1716. It is probably one of the most marvellous transitions from the depth of misery to the height of prosperity in so short a space of time, in the annals of any nation. And, if Law had confined himself to that, he would have been one of the greatest benefactors any nation ever had. It was only when, after three years he had attained the very pinnacle of success, that he determined to carry out his scheme of PAPER MONEY, which was the famous Mississippi scheme.

The next example of Lawism was the Ayr Bank, of which we



have given an account in Chapter VI. The proprietors of this Bank were enormously wealthy, and, because they were so, they thought that their known wealth would sustain the credit of any amount of paper issues. But alas! their experience too fully and fatally verified the sagacity of the directors of the Bank of Scotland, who in 1727, in answer to proposals for enlarging their credit, said: "For the quota of credit in a banking company *must be proportionate to the stock of specie in the nation*, learned and understood by long experience, and not extended to a capital stock subscribed for, which cannot in the least help to support the company's credit, if the specie of the nation decay." This doctrine contains the refutation of many wild schemes, and the true plan of regulating a paper currency, is simply to discover how a certain proportion shall be maintained between specie and credit.

21. The third great outburst of Lawism took place in the same country that witnessed his first exploits. In preparation for it, Law's "Money and Trade Considered" was translated into French in 1789, as if all the memory of the great catastrophe sixty-nine years before had perished. The National Assembly had confiscated the property of the Church, but, instead of yielding a revenue, it cost the nation £2,000,000 a year more than it produced, and in a few years augmented the public debt by £7,000,000. The property seized was valued at £80,000,000. The expense of the management required that it should be sold, but no purchasers could be found; for all persons in that terrible political earthquake wished to have their property in as portable a shape as possible, and few were willing to trust to a revolutionary title. In this dilemma, the municipalities agreed to purchase a considerable portion of it, in the first instance, and resell it in smaller portions to individuals. But, as there was not specie enough to complete the sale, they issued their promissory notes to the public creditor, to pass current until the time of payment came; but, when they became due, the municipalities had no means of discharging them. To meet them, the Assembly, in the spring of 1790, authorized the issue of £16,000,000 of assignats on the security of the land. In September, further issues to the amount of £32,000,000 were authorised. These additional issues were warmly opposed by Talleyrand and other leaders, who predicted their depreciation; but Mirabeau strongly supported them, denying the possibility of their depreciation, saying:—

"It is vain to assimilate assignats secured on the solid basis of these domains to an ordinary paper currency possessing a forced circulation. They represent real property, the most secure of all possessions, the land on which we tread. Why is a metallic circulation solid? Because it is based on subjects of



real and durable value, as the land, which is directly or indirectly the source of all wealth. Paper money, we are told, will become superabundant; it will drive the metallic out of circulation. Of what paper do you speak? If of a paper without a solid basis, undoubtedly; if of one based on the firm foundation of landed property, never. There may be a difference in the value of a circulation of different kinds; but that arises as frequently from the one which bears the higher value being run after, as from the one which stands the lower being shunned—from gold being in demand—not paper at a discount. There cannot be a greater error than the terrors so generally prevalent as to the over-issue of assignats. It is thus alone you will pay your debts, pay your troops, advance the revolution. Re-absorbed progressively, in the purchase of the national domains, this paper-money can never become redundant, any more than the humidity of the atmosphere can become excessive, which descends in rills, finds the river, and is at length lost in the mighty ocean."

22. Although these assignats bore 4 per cent. interest they had become depreciated in June, 1790; by June 1791, they had lost one-third of their value. In September, 1792, further issues were decreed. The two preceding Assemblies had authorised assignats to the amount of 2,700,000,000 francs, equal to £130,000,000, to be fabricated, of which only 200,000,000 francs remained unspent. On the 11th of April, 1793, the Convention decreed six years' imprisonment in chains to any one who bought or sold assignats for any sum in specie different to their nominal value, or made any difference between a money price and a paper price in payment of good. Vain effort! In June the assignat had fallen to one-third of its value, and in August to one-sixth. The exchange with London fell exactly in a corresponding ratio with the depreciation of the assignat at home. In June, 1791, it fell to 23; in January, 1792, to 18; in March, 1793, to 14; in June, 1793, to 10; on the 2nd of August, it was as low as 4½; on the 18th of October, it had risen to 8; but after that, it ceased to be quoted at all. Cambon, the Minister of Finance, proposed a further immediate issue of 800,000,000 of francs, equivalent to about £33,000,000 in addition to the quantity already issued. The public domains he calculated at £350,000,000. Hence upon the Theory of Law and Mirabeau, there was an ample margin, and the assignats should not have been depreciated below the value of silver; and, in fact, according to them, it was impossible they should. Wonderful commentary upon the wisdom of the philosophers, who maintain that if a paper currency only represents value, it cannot be depreciated!

23. We must refrain from detailing the terrible misery caused by the forcible issues of assignats, which were legal tender at

their nominal amount, the destruction of debts, the famine from the scarcity of provisions, the laws of the maximum, the penalty of death enacted against all who should keep back their produce from the market. All specie disappeared from the country and from circulation; those who possessed any, not deeming it secure from revolutionary violence, exported it to London, Hamburg, Amsterdam, and Geneva. But many persons stoutly maintained, in pamphlets, that it was not the paper which was depreciated, but the specie which had risen.

24. The intolerable misery caused by this state of things, caused the Government which succeeded the Reign of Terror, to make an attempt to withdraw a portion of the assignats from circulation, by demonetizing them, that is, depriving them of their quality of money, and forcing their holders to receive payment in land for them. But when a man wanted to buy food to eat, what was the use of giving him land? The report that a portion of the assignats were going to be demonetized sent down their value still lower, and a decree against it was obliged to be passed to appease their holders. All sorts of plans were devised to withdraw them from circulation; lotteries, tontines, a land bank, where they were to be lodged and bear 3 per cent. interest. But the constant issue of them, required for the necessary payments of the State, rendered all such attempts useless.

25. In January, 1796, the assignats in circulation amounted to forty-five milliards, or about £2,000,000,000, and the paper money had fallen to one-thousandth part of its nominal value. The Government then determined to issue territorial mandates, at the rate of 30 assignats to one mandate, which were to be exchangeable directly for land, at the will of the holder, on demand. The certainty of obtaining land for them, made them rise for a short time to 80 per cent. of their nominal value; but necessity compelled the Government to issue £100,000,000 of these mandates secured upon land, supposed to be of that value. This prodigious issue sent the mandates down to nearly the same discount as the assignats were, and, consequently, as one mandate was equal to 30 assignats, the latter had fallen to nearly the thirty-thousandth part of their nominal value. At length, on the 16th of July, 1796, the whole system was demolished at a blow. A decree was published, that every one might transact business in the money he chose, and that the mandates should only be taken at their current value, which should be published every day at the Treasury. Two days afterwards it was decreed that the national property remaining undisposed of should be sold for mandates at their current value. As a matter of course, the public creditors received payment of their debts in the same proportion.

26. No sooner, however, was this great blow struck at the paper currency, of making it pass at its current value, than specie immediately re-appeared in circulation. Immense hoards came forth from their hiding places; goods and commodities of all sorts being very cheap from the anxiety of their owners to possess money, caused immense sums to be imported from foreign countries. The exchanges immediately turned in favor of France, and in a short time a metallic currency was permanently restored. And during all the terrific wars of Napoleon, the metallic standard was always maintained at its full value.

27. One thing, however, we cannot help noticing. When describing the history and effect of the assignats, nothing can be more clear and correct than the narrative of Sir Archibald Alison. He sees clearly that a difference in value between the assignat and specie was truly a discount, or fall in the value of paper. Thus he says (Hist. of Europe, Vol. ii., p. 219, 7th Edit.):—

“They for some time maintained their value on a par with the metallic currency. By degrees, however, the increasing issue of paper currency produced its usual effect on public credit; the value of money fell, while that of every other article rose in a high proportion, and at length the excessive inundation of fictitious currency caused a universal panic, and its value rapidly sank to a merely nominal ratio. Even in June, 1790, the depreciation had become so considerable as to excite serious panic.”

Again, speaking of 1791, p. 305:—

“Public and private credit had alike perished amidst the general convulsions. Specie had disappeared from circulation. The assignat had *fallen* to a third of its value—[This is not quite correct. At this time the assignat had lost one-third of its value, not fallen to one-third of it.]—and occasioned such an amount of ruin to private fortunes, that numbers already wished for a return to the ancient *regime*.”

“While the unlimited issues of assignats, at whatever *rate of discount* they might pass, amply provided for all the present and probable wants of the Treasury.

“The vast and increasing expenditure of the Republic could only, amidst the total failure of the taxes, be supplied by the issue of assignats; and this, of course, by rendering paper money redundant, lowered its value in exchange with other commodities, and occasioned a constant and even frightful rise of prices.

“All the persons employed by Government, both in the civil and military departments, were paid in the paper currency at par; but as it rapidly fell, from the enormous quantity in circulation, to a tenth-part, and soon a twentieth of its real value, the pay received was merely nominal, and those in receipt of the

largest apparent incomes, were in want of the common necessities of life. Pichegru, at the head of the army of the North, with a nominal pay of 4,000 francs a month, was in the actual receipt, on the Rhine in 1795, of only two hundred francs, or £8 sterling of gold and silver.

"The funds on which the enormous paper circulation was based, embracing all the confiscated property in the kingdom, or land, houses, and moveables, were estimated at fifteen milliards of francs, above £600,000,000 sterling; but, in the distracted state of the country, few purchasers could be found for such immense national domains; and, therefore, the security for all practical purposes was merely nominal. The consequence was that the assignat fell to one-twelfth of its real value; in other words, an assignat for 24 francs was worth only two francs; that is, a note for a pound was worth only 1s. 8d.—

"Foreign commerce having begun to revive with the cessation of the Reign of Terror, sales being no longer forced, the *assignat was brought into comparison with the currency of other countries*, and its enormous inferiority precipitated still further its fall.

"By no possible measure of finance could paper money, worth nothing in foreign states, from a distrust of its security, *and redundant at home from excessive issue*, be maintained at anything like an equality with gold and silver. The mandates were, in truth, a reduction of assignats to a thirtieth part of their value; but, to be on a par with the precious metals, they should have been issued at one-thousandth part, being the rate of discount to which the original paper had now fallen.

"The excessive fall of the paper at length made all classes perceive that it was in vain to pursue the chimera of upholding its value. On the 16th July, 1796, the measures, amounting to an open confession of a bankruptcy which had long existed, were adopted."

28. We have quoted these passages for the purpose of shewing how completely Sir Archibald Alison, when he is speaking of the paper currency of France, acknowledges the great principle, that the value of the paper currency is only to be estimated at the value it will purchase in specie, that the measure of that difference between the real and the nominal value is its *depreciation*, and that a payment in coin at the current value of the paper currency is a NATIONAL BANKRUPTCY. Yet, such is the amazing inconsistency of this writer, that when he comes to speak of the paper currency of England, which exhibited exactly the same phenomena, only on a smaller scale, he resolutely denies that it was depreciated. When the French assignat had lost one-third of its value compared to specie, in 1791, he acknowledges that it was *depreciated*; when the Bank of England note



in 1811 had lost one-fourth of its value compared to specie, it was not the note which had fallen, but gold that had risen!! When assignats were made legal tender in France at their nominal value, specie disappeared from circulation. When Bank of England notes were substantially legal tender in England, and had lost a quarter of their nominal value, specie disappeared from circulation. Sir Archibald Alison estimates the depreciation of the assignat by the difference between the current and the nominal value of the assignat; but when the Bullion Committee estimated the depreciation of the Bank note by the difference between its nominal and its current, or market value, he reads a homily to them upon their ignorance and folly, talks of the "general delusion which so long had prevailed upon the subject, when it is recollected not only that the true principles of this apparently difficult, but really simple, branch of national economy, which are now generally admitted, were at the time most ably expounded by many men both in and out of Parliament, but that, in the examination of some of the leading merchants of London before the Parliamentary Committee on the subject, the truth was told with a force and precision, which it now appears surprising any one could resist." This truth which was told with such irresistible force and precision, was, that twenty-seven was equal to twenty-one! He then acknowledges that it was a national bankruptcy of the French Government to pay its notes with a less amount of specie than their nominal value; but nothing can exceed the bitterness of his invective against the Currency Act of 1819, which provided that the Bank of England should pay its notes at their full nominal value in specie. Just as if it was less a *bankruptcy* to pay 15s. in the pound than to pay 1s. in the pound. He sees clearly that in *France* the paper currency is to be estimated by the value of gold, but in *England* he maintains that gold is to be estimated by the value of the paper currency!! Just as if the eternal truths of science are different, on different sides of the Channel, or that they are reversed according to the language they are expressed in!

29. Sir Archibald Alison's doctrines, when he speaks of the English and the French inconvertible paper currency, are clearly inconsistent. He fully allows that any difference between the nominal and the current value of the assignat was a *depreciation* of the assignat. He never dreams of saying that the paper assignat was the standard, and that the *coin* had risen in value. But when he discusses the question of What is a pound? he says, "In truth, a pound is an abstract measure of value just as a foot or a yard of length, and different things have at different periods been taken to denote that measure, according as the convenience of men suggested. It was originally a pound"



weight of silver, and that metal was, till the present century, the standard in England, as it still is in most other countries. When gold was made the standard, by the Bank being compelled by the Act of 1819 to pay in that metal, the old word denoting its original signification of the less valuable metal was still retained. During the war, when the metallic currency disappeared, the pound was a Bank of England pound note—the standard was the paper—for gold was worth 28s. the pound from the demand for it on the Continent.” It is scarcely necessary to point out the ridiculous absurdity of this passage. The pound an *abstract* thing indeed! Our ancestors had very few abstract ideas at all, and certainly an *abstract* idea of a pound was not one of them. They meant nothing abstract, but, on the contrary, a very substantial *pound weight of silver bullion*, and nothing else. To say that a paper pound was the standard during the war, is a misconception of the fact. Instead of a “promise to pay” on demand, the Bank note during the war was a “promise to pay specie six months after peace.” It is not true that gold during the war was worth 28s. paid in *silver money*, but only in depreciated *bank notes*. But Sir Archibald Alison admits that an excessive issue of paper would have depreciated the bank note, but he, of course, denies that the issues were excessive. Now, as a depreciation from an excessive issue could only be manifested by a continuous rise of gold above 28s. the pound, it would be difficult to understand where the turning point would be at which the depreciation would commence. At what figure should we have to reverse our expression—at what figure are we to say that gold has ceased to rise, and paper begun to fall?

30. Such is a plain statement, founded upon incontrovertible facts, of the results of the greatest experiment the world ever saw of issuing a paper currency secured upon commodities or property—the most complete example of LAWISM. When the issues of assignats were at their height, they were certainly not anything equal to the value of the fee-simple of France expressed in silver money. And, according to the predictions of Law and Mirabeau, it was a matter of impossibility that they should ever become depreciated, and what was the result? Even though the experiment was not carried out to its fullest extent, the value of the paper assignat sank to one 30,000th part of its value in silver! There were 2,400 millions of promises of mandates issued against property valued at 3,785 millions, and yet, in July, 1796, the note for 100 livres was only 5 centimes! Such was the inevitable consequence of basing a paper currency upon property or securities, and such it ever must be, because, if such issues are once begun, there is no legitimate conclusion whatever until all the property in the country is coined into notes. Pass

the legitimate limits of a circulating medium by one hair's breadth, and there is no logical conclusion but in the French assignats.

31. The next example we shall cite is the Bank of Norway, which was founded on the 14th June, 1816, with its head office at Dronthiem, and branches in the provincial towns.\* Its capital was originally raised by a forced loan or tax upon all landed property, and the landholders became shareholders according to the amounts of their respective payments. This Bank was especially for the purpose of forwarding agricultural improvements, and only discounted mercantile bills and personal securities, as a secondary part of its business. Its principal business consisted in advancing its own notes, upon first securities over land, to any amount not exceeding two-thirds of the value of the property according to a general valuation taken in the year 1812. The borrower paid half yearly to the Bank the interest of the sum that may be at his debit, at the rate of 4 per cent. per annum, and is bound also to pay off 5 per cent. yearly of the principal, which is thus liquidated in twenty years. Mr. Laing bestows great commendation upon this institution, and describes it as well-innagined and well-managed, and there cannot be a better example to test the truth of Law's principles. We must bear in mind that Law especially declares that on his principle his paper currency would not fall below the value of silver. Now, let us mark what took place with regard to the Bank of Norway, which was founded purely on his principle. By the fundamental law of this Bank, it should, after a certain time, have begun to pay its notes in specie (*Laing's Norway*, p. 298); but in 1822 its notes could only be exchanged at Hamburg against silver at the rate of 187½ dollars in paper for 100 dollars in silver!! That is, in 6 years the notes had fallen to about 45 per cent. discount! Was there ever a more striking or conclusive example of the entire fallacy of Law's predictions than this Bank? In 1822 the Storthing passed a law that the Bank should only be compelled to give 100 silver dollars for every 190 paper dollars, but that the directors might at their own discretion reduce the rate to 175, without a new law. In 1824 the value at Hamburg rose to 145, in 1827 it rose to 125, and in 1835, when Mr. Laing wrote, it stood at 112, which could only have been done by a contraction of its issues. Now, it is quite evident that if the Bank had been called upon to pay its notes at par at any moment, it would infallibly have been ruined. This happened in Paris in 1803, when the Land Bank stopped payment, and J. B. Say observes that all Banks founded upon this principle have uniformly failed.

\* Laing's Norway, p. 184. Travellers' Library.

32. The last example we shall cite is the case of America. That country was unhappily deeply bitten with the currency mania of basing issues of paper on "securities." In most of the States the Legislature passed Acts permitting any individual, or any banking associations, to issue notes to any amount, upon depositing with a "public comptroller," securities of equivalent value. These "securities" might be public stock, or mortgages upon improved, productive, and unencumbered lands.\* Now, as these "securities" remained the property of the vendors, and they might appropriate the revenues from them, as long as payment of the notes was not demanded from the comptroller, people saw that they might derive a profit from the security as well as from the currency which represented its value. There was, accordingly, a prodigious rush to deposit securities—an enormous issue of paper, during the years 1834-5-6. The prices of everything rose immensely. The people of the Western States, with their "pockets full of paper currency," gave very large orders for goods to the merchants of New York, Boston, and Philadelphia, who duly executed them. The bills given for the purchases were payable in these eastern cities; and, when the western debtors went to their own bankers for bills of exchange on these places, in return for their own local currency, the bankers discovered that their home customers had bought more from the eastern cities than they had sold; that they had already drawn on the east for every dollar which the east was indebted to them, and could draw no more. The western merchants then sent their own currency notes to the eastern cities in payment, but, unfortunately for them, the merchants there had already paid all they owed to the west, and nobody in New York or Philadelphia, wanted western notes for any purpose of use, and nobody was disposed to travel 600 or 700 miles to request the cashiers of the Western States to pay their notes, or in those States in which security had been given to require the comptroller to sell the pledged securities and pay them the money produce. Moreover, every one knew that it was physically impossible in either case to obtain the amount in money, for there was no currency in which the pledged property when sold could have been paid, except *Bank* notes resting on securities, or on the mere promise of the banker." In the meantime, the usual effects followed, specie disappeared from circulation. The extended paper issues led the Americans to order immense quantities of goods from Europe, and, prices being very high from the bloated paper currency, they could send no goods in return to pay for them. For some time they sent over great quantities of their stock, but this became superabundant, and at

\* A very graphic account of the currency vagaries of the United States is given in two Articles of the "*Scotsman*," Nov. 21 and 24, 1855. See also *The Progress of America*, by John Macgregor, Esq., M.P., vol. ii., p. 1768.

last no one in Europe would buy it. It became necessary then for them to pay their debts in specie, but specie there was none. In 1837 all the Banks in America, without exception, stopped payment. The general suspension began at New York on the 11th May, and spread in every direction. In May, 1838, the New York banks resumed specie payments, which were followed by all the New England banks in August, 1838. This was followed by the banks in Philadelphia, and on the 1st January, 1839, the banks throughout the Union professed to do so. No sooner, however, were they set up again than they resumed the same wild operations on credit, and on 9th October, 1839, out of 850 banks in the Union, 343 suspended payment entirely, and 62 partially. On this occasion the New England banks were honorably distinguished; they had gathered wisdom; and out of 198 banks in New York only four stopped; whereas, in the Southern and Western States, about two out of three stopped. The United States Bank, with a paid up capital of £7,000,000, was found to be utterly insolvent; its shares, which were at 123 dollars on the 14th August, 1838, were at 3 dollars in January, 1842. This was the fifth grand experiment of Lawism, pure and unadulterated, on the most magnificent scale, and such was the result!

33. All ideas, therefore, of basing a paper currency upon property, or commodities, are essentially erroneous, and can have no other possible termination, if only carried out to their legitimate consequences, than what happened in France in 1796, and America in 1837-9. There is one species of property, however, which, from its being more nearly confounded with money in the public ideas than any other, is supposed by many persons, who would repudiate any imputation of being disciples of Law, to be a sound basis for a paper currency. This property is public stock. A very prevalent idea is, that all banks of issue should give security by purchasing the public funds, and then deposit the stock with a Government officer. But what is this but the wildest, rankest, and most odious LAWISM? The rule that is good for one is good for all. If the public funds are a proper basis for £1,000 of paper currency, they must of necessity be a good basis to their whole extent. If one bank or banker is allowed to issue paper on the security of stock, every other one must be permitted to do the same, until the whole funded debt of Great Britain is coined into paper notes. If £100 of public debt is coined into £100 of notes, we must, by an irresistible conclusion, have £800,000,000 of public debt coined into an equal quantity of notes. The principles of basing a paper currency upon land, and upon the public funds, are absolutely identical, and equally vicious. To permit a man to spend his money in buying part of the public debt, and to have it as well, in the form of notes, is as rank an absurdity as to



permit him to spend it in land and also have it as notes. The only advantage one has over the other is, that the funds are more easily convertible into money than land is. The same is true of a nation as an individual—that a nation can *spend* its money in destroying its enemies and *have* it too as bank notes, or “currency,” is a wild and mischievous delusion.

34. The drift of these remarks is evident. The whole constitution of the Bank of England is fundamentally vicious. It is as complete an example of pure Lawism as the French assignats, or the American banks. It gave its original capital to Government, and then was allowed to have it in the form of notes. The first public debt was Bank of England stock, and for several of the early additions to its capital, *i. e.*, the public debt, it was allowed to issue notes to the exact amount of its capital, and this permission still continues. Now, if this system had been carried out to its legitimate conclusion, the National Debt and the capital of the Bank of England would have been the same thing, and the paper notes of the Bank would have been nearly £800,000,000. When it was founded the nation thought they might spend £1,200,000 in destroying the French, and have them too as Bank notes. But, if this principle had been carried out much further, it would have ended in fatal and universal ruin.

35. The fundamental principle of the Bank of England was, therefore, as erroneous as that of the Mississippi scheme, the Ayr Bank, the French assignats, or American banking; but as, in all these cases, the mischief is not developed until the issues exceed a certain limit, the radical vice of the Bank of England has been prevented from producing its inevitable consequences by rigidly restraining it to that single instance. But, then, this vice was kept down by a most unjustifiable monopoly, which was the chief cause of those tremendous banking catastrophes which have desolated England, and which has, until of late years, prevented a sound banking system being founded.

*On the Theory of basing a Paper Currency on the Discount of Commercial Bills.*

36. We trust that the preceding remarks are absolutely conclusive as to the fundamental fallacy of Lawism of all forms and descriptions, by which we mean, the theory of basing issues of paper on property, or commodities, whether the public funds, or land, or any moveable goods. We must now examine a much more subtle and plausible theory, which was the guiding principle of the Bank of Ireland and the Bank of England during the restriction, and which was adhered to by a large majority of the commercial world; nor are we aware of any refutation of it on



philosophical grounds, except the one in the Bullion Report, which we shall quote and comment upon. This theory was first prominently brought forward before the Committee on the Irish Currency in 1804, and we have quoted it elsewhere. The Bullion Committee express it in the following words:—

“The Bank directors, as well as some of the merchants who have been examined, shewed a great anxiety to state to your Committee a doctrine, of the truth of which they professed themselves to be most thoroughly convinced—that there can be no possible excess in the issue of Bank of England paper, so long as the advances in which it is issued are made upon the principles which at present guide the conduct of the directors; that is, so long as the discounts of mercantile bills are confined to paper of undoubted solidity, arising out of real commercial transactions, and payable at short and fixed periods.”

37. The germ of this doctrine is to be found in Adam Smith, who says, “When a bank discounts to a merchant, a real bill of exchange, drawn by a real creditor upon a real debtor, and which, as soon as it becomes due, is really paid by that debtor, it only advances to him a part of the value, which he would otherwise be obliged to keep by him unemployed, and in ready money for answering occasional demands.” It was first prominently brought forward as a practical rule by the Irish Bank directors, in 1804. The Committee of that year did not attempt to deal with this theory; but the witnesses examined before the Bullion Committee re-produced it, and alleged that it was the principle by which the Bank of England regulated its issues during the restriction. The directors of the Bank allowed that, before the restriction, they were compelled to regulate their issues by a drain of gold on them for exportation; when that check was removed, the controlling power was lost; and, indeed, one of the directors stated that, in his opinion, that was one great merit of the restriction; that they were no longer obliged to adhere to their former rules. The Bullion Committee, however, decidedly condemned these opinions. They say, speaking of the consequences of the Restriction Act:—

“By far the most important of these consequences is, that while the convertibility into specie no longer exists, as a check to an over-issue of paper, the Bank directors have not perceived that the removal of that check rendered it impossible that such an excess might be issued by the discount of *perfectly good bills*. So far from perceiving this, your Committee have shewn that they maintain the contrary doctrine with the utmost confidence; however, it may be qualified occasionally by some of their expressions. That this doctrine is a very fallacious one, your Committee cannot entertain a doubt. The fallacy upon which it is founded, lies in not distinguishing between an advance of

capital to merchants and an additional supply of currency to the general mass of circulating medium. If the advance of capital only is considered as made to those who are ready to employ it in judicious and productive undertakings, it is evident that there need be no other limit to the total amount of advances than what the means of the lender and his prudence in the selection of borrowers may impose. But, in the present situation of the Bank, entrusted, as it is, with the function of supplying the public with that paper currency which forms the basis of our circulation, and, at the same time, not subjected to the liability of converting the paper into specie, every advance which it makes of capital to the merchant in the shape of discount, becomes an addition also to the mass of circulating medium. In the first instance, when the advance is made by notes paid in discount of a bill, it is undoubtedly so much capital, so much power of making purchases, placed in the hands of a merchant who receives the notes; and, if these hands are safe, the operation is so far, and in this, its first step, useful and productive to the public. But as soon as the portion of circulating medium in which the advance was thus made, performs in the hands of him to whom it was advanced, this, its first operation as capital—as soon as the notes are exchanged by him for some other article which is capital, they fall into the channel of circulation, as so much circulating medium, and form an addition to the mass of currency. The necessary effect of every such addition to the mass is to diminish the relative value of any given portion of that mass in exchange for commodities. If the addition were made by notes convertible into specie, this diminution of the relative value of any given portion of the whole mass would speedily bring back upon the bank which issued the notes as much as was excessive. But if by law they are not so convertible, of course, this excess will not be brought back, but will remain in the channel of circulation, until paid in again to the bank itself, in discharge of the bills which were originally discounted. During the whole time they remain out, they perform all the functions of circulating medium, and before they come to be paid in discharge of those bills, they have already been followed by a new issue of notes, in a similar operation of discounting. Each successive advance repeats the same process. If the whole sum of discounts continues outstanding at a given amount, there will remain permanently out in circulation a corresponding amount of paper; and if the amount of discounts is progressively increasing, the amount of paper which remains out in circulation over and above what is wanted for the occasions of the public, will progressively increase also; and the money prices of commodities will progressively rise. This progress may be as indefinite as the range of speculation and adventure in a great commercial country."

38. Such is the reasoning of the Bullion Report, to shew the fallacy of the rule of the directors. We are not aware of any other attempt to refute it, so elaborate as the one given. The conclusions are perfectly just, but the expressions are in some respects ambiguous, in some, inaccurate; and, altogether, the reasoning is inadequate to effect its purpose of demonstrating the fallacy of the doctrine. In the first place, the expression "good bills" is one which we shall shew is full of fallacy. The Report has further been clouded by the false distinction between "capital" and "circulating medium." Again, it says the necessary effect of every addition to the mass of the currency, is to diminish the value of the whole, which assertion is entirely erroneous, because the value of the currency is always proportionate to the work which it has to do; and it is only a change in the proportion between the currency and the work that it has to do, that causes a change in its value. The Committee were further in great error in supposing that so small an amount as could be added to the circulating medium in so short a time as during the currency of the bills that were discounted, could have any general effect on prices.

39. We shall find that, by starting from our fundamental definition of currency, as transferable debt, and that the value of the currency depends upon the quantity of transferable debt which it represents, the fallacy of this theory can be demonstrated with great ease and simplicity, and the mischievous consequences which followed from it explained. When the merchant A comes to the bank to *discount* the acceptance of B, it is a sale of the debt to the bank. The bank buys a debt payable at a fixed time after date, with its notes, which are so many small debts payable to bearer on demand, while the notes are convertible. The transaction is simply an exchange of debts. At the appointed time it is B's duty to take a quantity of currency to the bank, and discharge his debt. He does this, either in coin, or in the bank's own notes. If he pays his own debts by the bank's notes it is simply a re-exchange of debts between him and the bank; he extinguishes his own debt to the bank at the same time an equal quantity of the bank's debt is taken out of circulation and extinguished; consequently, the proportion existing previously between the currency and the quantity of debt it represents, remains unaltered. If the merchant discharges his debt partly in coin, and partly in bank notes, or wholly in coin, the same result follows; the notes which remain out in circulation still represent the same amount of capital. But let us suppose that the acceptor *fails* to meet his engagement, and cannot pay his debt. Then the debt due to the bank is lost and extinguished; but the debt *against* the bank remains; and the bank, whilst the notes are payable to

bearer on demand, must pay this debt out of its remaining capital. Still, however, though this is loss of capital to the bank, as the notes are taken out of circulation, the value of the notes remaining in circulation will not be affected. But now let us suppose the notes to be *inconvertible*, then, as before, if the acceptor pays the debt, the notes will be taken out of circulation, and extinguished simultaneously with the debt which they purchased, and the value of those remaining in circulation will not be altered. But suppose that the acceptor fails, and cannot pay his debt, then that debt is extinguished, but the notes which purchased it remain in circulation, and are a mere addition to the circulating medium already existing, without any corresponding addition to the debt or capital which it represents. It would have exactly the same practical effects as if for every good bill of £1,000 the bank were to issue an excess of currency, say £1,500, for example, and when the bill was paid only £1,000 would be taken out of circulation, and the remainder, £500, would remain in circulation. This residuum, as we may call it, would go in diminution of the value of the remainder, exactly in the same way as a constant increase to the gold currency would gradually cause a diminution in its value. Every such operation, therefore, alters the proportion between the currency and the capital, or the debt it represents; and though, no doubt, a few unsuccessful operations of this sort would not have any sensible effect in changing its value, yet a repeated succession of them must necessarily do so ultimately, just as adding a drop to water in a bucket may not perceptibly increase the height of the water, yet a continued series of drops will at length cause the water to overflow the bucket; so a continued series of such operations under an inconvertible paper currency must necessarily result in a serious diminution in the value of the whole.

40. But it may happen, that even though the merchant pays his debt, and no loss of capital ensues to the bank, yet it may be a loss of capital to him. Thus, when he bought the goods on credit, and gave his acceptance for them, which was purchased by the bank, he meant to employ those goods as *capital*, that is, he bought them merely for the purpose of selling them again, with a profit. If he succeeds in this object, and sells them to advantage, he pays his acceptance out of the proceeds realised by the goods, and his capital is increased more or less, according to the greater or less advantage he sells them at. But if he has made a miscalculation, and sells the goods at a loss, he must still make good his debt to the bank out of his remaining capital; and such a transaction is a loss of capital to him. But every loss of capital to an individual is a loss of capital to the whole



community.\* And the great general result to the community is absolutely the same, whether the loss of capital falls upon the individual or upon the bank. The capital of the nation is diminished, but the currency remains the same. Consequently, every unsuccessful operation in trade alters the proportion between the quantity of the currency and the quantity of the debt, or the capital it represents; and, therefore, every unsuccessful operation necessarily tends to diminish the value of the whole currency, unless some means can be devised by which a quantity of currency can be removed from circulation corresponding to the loss of capital. Now, the diminution in the value of the currency inevitably shews itself in process of time, by a general rise in prices. It may do so gradually and imperceptibly at first—in the hourly variations of prices, it may not, perhaps, be perceived at first; just as when the waves are breaking upon the shore, it is impossible to tell whether the great tide is advancing or receding; but, if it continues for any length of time, all traders begin to feel it instinctively. It is impossible, perhaps, to point out the precise influence in any particular transaction; but yet it makes itself felt in commercial operations by a general rise in prices. The fact is, that when the operation was done, and the production exposed for sale, it was expected and calculated that a certain portion of currency would be appropriated to its purchase. But, if people do not want the article, they will not appropriate that portion of currency to its purchase; the producer loses his capital, and the currency remains in circulation. And the increased quantity of it gradually enters into the prices of other commodities, aggravating them, and swelling them up. Now, when this is the case, when the currency is made of a material which has a universally acknowledged value, nature herself provides the remedy. When commodities rise in price in this country beyond their prices in foreign countries, besides the cost of transporting them here, they will be imported, and the extra quantity thrown upon the market diminishes their price, both by altering the ratio of supply and demand, as well as by removing the quantity of currency necessary to pay for them from circulation, until the general equilibrium is again restored between prices, currency, and capital. But, if the currency be made of a material which has no value whatever, like paper, this great restoring process of nature cannot take place. The quantity of currency remains the same, while the debt it represents is diminished. The consequence is, a general diminution in value of the whole currency—all the portion of the currency which has no value as a material is driven out of circulation; then follows

\* J. B. Say has also remarked this:—"Un mauvais speculateur est aussi fatal à la prospérité général qu'un dissipateur. *Traité d'Economie Politique*, p. 445. Edit. Guillaumin.



a great rise in the market price of bullion, and, a necessary consequence, a fall in the foreign exchanges.

41. The foregoing considerations enable us to affix a definite and specific meaning to a phrase which is now in constant use, but which we have never yet seen any attempt to explain. All discussions upon currency are full of misty and vague expressions about "excessive issues," "over-issues," but we have never seen any attempt to define what an "over-issue" is. Now, "over-issues" in general, must consist of specific instances of "over-issue" in particular cases. Where is the use or the sense of casting vague and indefinite accusations against the Bank of making "excessive issues," unless the person who makes the charge is prepared to point out specifically which issues are excessive, and which are not? Now, the meaning which we affix to an "excessive issue," or an "over-issue," is an advance upon an unsuccessful operation, or the "purchase of a bad debt." Every quantity of currency advanced to promote an unsuccessful operation, or which purchases a bad debt, alters the proportion between the currency and the debt, or the capital it represents. Each specific instance, then, of such an operation, is an "over-issue," and the expression "over-issue," or "excessive-issue," has no other meaning.

42. The foregoing considerations also shew the complete fallacy of the theory we have been discussing, of issuing notes upon "good bills." In a banker's sense, a "good bill," means simply a bill which is duly paid by the proper party at maturity. It is not the smallest consequence to him, whether the transaction out of which the bill originated is a profit or a loss to the person who incurred the obligation, as long as he is paid. But if the expression "good bill" be taken in a more extended and philosophical sense, to denote a bill upon which it is safe to issue currency, it is a very different matter indeed, for then a "good bill" can only mean one generated by a successful operation.

43. It is not a little remarkable, that Adam Smith adopts both the theories of paper currency, which have imposed so extensively on the banking and mercantile world, and that within a very few pages of each other. The one theory, that which the Bank Directors and merchants adopted in 1810; the other, which is the great currency fallacy of the present day. The two theories are utterly irreconcilable and inconsistent with each other; the one necessarily leads to the most excessive over-issues and depreciation of the paper currency, the other, if carried out in all its integrity, would be utterly destructive to the business of banking.

44. What then is the only true foundation of a paper currency? Every consideration of sound reasoning and science, proves that the only true foundation of a paper currency is that substance which is the legal or the universally accepted representative of DEBT, *i. e.*, of services due, whatever that substance be. Now, among all civilized nations gold or silver bullion is the acknowledged representative of debt. Consequently, gold or silver bullion is the only true basis of a paper currency. Among all civilized nations the *weight of bullion is the acknowledged measure of value*, and, consequently, bullion is the only true basis of the "promises to pay." Many unthinking persons declaim against the absurdity of founding a paper currency upon the *commodity* of gold bullion rather than any other commodity, such as wheat, or silk, or sugar. But it is not as a *commodity* that bullion is the basis of a paper currency, but as the substance which is the accepted representative of *debt*. It would be perfectly possible to make a yard of broadcloth, or a Dutch cheese, representative of debt, and the measure of value; then broadcloth or Dutch cheeses would be the only true basis of a paper currency, and to issue paper upon the basis of bullion would, in such a case, be as improper as to issue paper on the basis of broadcloth, or Dutch cheeses, under existing circumstances. But all nations are agreed that bullion is better fitted by nature for such a purpose than broadcloth, or Dutch cheeses; and, consequently, as it seems to be the substance pointed out by nature herself for representing debt, it is the substance which forms the only true basis of a paper currency.

45. Bullion, then, as the symbol of debt, is not only the sole proper basis of a paper currency, but is the only true regulator of its amount. As all paper currency is a "promise to pay" gold or silver bullion at some definite time, it is quite evident that the "promises to pay" floating in a nation must bear some proportion in quantity to the actual quantity of the bullion. It is quite impossible to fix any definite proportion, because that depends upon a multitude of peculiar circumstances. Experience is the only guide on the subject.

46. Specie and credit, or money and promises to pay money, then, form the only true circulating medium or currency, and they are its limits. If the limits of specie and credit are once transgressed, we plunge at once into the dread abyss of Lawism, and there is no logical goal till we arrive at the assignats of 1796, or the issues in America in 1837; and even these did not reach the full limits allowed by the theory. It is impossible to exceed the boundaries of money and credit by a single iota, without involving this absurdity—*that we can buy a thing and keep the price of it as well.*

47. Money and credit, then, must always increase and decrease together. If a man's real capital is reduced from £1,000 to £100, it is quite clear that he cannot safely keep in circulation as many "promises to pay" as when he had £1,000, and if his real capital is leaving him, he must reduce his liabilities in a similar proportion. If he chooses to spend £500 in buying commodities, such as corn, it is quite clear he cannot spend the money, buy the commodity, and have the price as well. Now, what is true of a single individual is equally true of a bank, or of a nation. When an ordinary bank feels a drain upon its bullion, it must reduce its liabilities, its "promises to pay," or else the ruin of that bank is certain. Now, some people think, that though this must be true of private banks, yet it is the reverse of true applied to the Bank of England, and that, as its bullion *decreases* it ought to *increase* its issues. Sir Archibald Alison frequently reminds us of the truism that the same great law regulates the fall of a pebble and the motion of the planets. So we may say, that the same great law regulates the relations between the credit and the capital of the humblest individual, the smallest bank, the Bank of England, and the British nation. Some people think that as capital decreases credit should increase. What makes the credit of Great Britain so great? Because her capital is so great. Why is the credit of Russia so low? Because her capital is so small.

48. The operation of reducing "issues" or "advances," is always one which will excite much complaint, and requires to be done with much delicacy; and, indeed, the grand problem in regulating the paper currency, is to discover the true mode of acting upon it, so as on the one hand to maintain always its uniformity in value with the coin it represents, and on the other not to contract it too suddenly and violently, and without giving the public sufficient warning to enable them to reduce their liabilities in proportion.

49. From the amazing confusion of language and thought which pervades almost all treatises on monetary science, the plain and obvious method of controlling the paper currency has almost entirely eluded observation. No person who apprehended the true nature of banking, and expressed it in simple language, could fail to see the natural controller. The main business of commercial banking is discounting mercantile bills—that is, buying debts. Discounting a bill for a merchant is not *lending* him money but *buying* a debt due to him; and the price of such debt must follow exactly the same laws as the price of corn, or any other article. If money is very scarce, and wheat very abundant, the price of wheat must fall; if money is very abundant, the price of wheat will rise. The price of debts obeys the same

rules. If money becomes very scarce, the price of debts must fall, *i. e.*, the discount must rise. If capital becomes abundant, the price of debts will rise, *i. e.*, the discount will fall. The price of debts, then, must follow the same great laws of nature that the price of wheat does. Now, does not every man of common sense know that it is the most foolish and insane thing to try to control the price of wheat? As we have shewn in another place, it is not the fluctuation of the price of wheat that is the evil, but it is only the *sign* of evil. The real evil is the change in the proportion of the demand and supply, and the fluctuation of the price is the grand natural corrector of the evil. Does not every one know that a high price of corn is the way to *attract* corn where it is deficient, and a low price the way to *repel* it from where it is already too abundant? Does not every one with common sense know that it is the most fatal folly to force down the price of wheat when there is a real scarcity, and to sell it below the price it would naturally attain? Can any course be more suicidal?

50. Now, apply all the arguments which suggest themselves so irresistibly in the case of wheat to the case of credit, or the purchase of debts, and the same results follow. The same great law of nature operates to preserve the due proportion between capital and credit, and any interference with this great law must necessarily be attended with the same evil consequences as an interference with the natural price of wheat. And yet almost all legislation up to a very recent period, and almost all writers on political economy, and too many of the commercial world, are in a perverse combination to thwart this great law of nature, and attempt to keep the rate of discount, or the price of debts, fixed at a uniform scale!

51. While, therefore, the greater part of commercial complaints are levelled against variations in the rate of discount as the great evil, the truth is, it is only the *sign* of the evil. The real evil is the altered proportion between capital and credit, and a variation in the rate of discount is the grand natural corrector of the evil. To attempt to keep the rate of discount uniform, is to thwart and contravene the laws of nature just the same as an attempt to fix the price of wheat. Like all true laws of nature, the simplicity, beauty, and perfection of its action is marvellous, and it produces a multitude of results which are not perhaps very obvious at first. If capital is leaving the country and becoming scarce compared to credit, every principle of nature shews that the value of money must rise, *i. e.*, the rate of discount must rise; and this has a tendency to prevent the outflow of bullion, and to attract it from abroad; on the other hand, if capital be flowing into the country and likely to become

too abundant compared to credit, a fall in its value, or a fall in the rate of discount, *repels* it from the country. If a nation be visited with a great failure of the crops it can only buy such food from foreign countries with its commodities or its money; it cannot send its credit in payment abroad. Now, if commodities are too dear, it must pay with money, and credit in this country is the great producing power, and credit *for a time* is a great sustainer of prices by enabling people to withhold their commodities from the market. Now, raising the rate of discount curtails credit, forces sales, and thereby lowers the prices of commodities, and makes it less profitable to export specie, and more profitable to export goods. Moreover, this rise in the value of money here, *i. e.*, the low price of debts and commodities, tempts buyers from neighbouring countries to bring their money here. It thus causes an inflow of bullion, and restores our currency to an uniformity of value with that of neighbouring countries. Again, if this nation has to spend a great part of its money in buying foreign corn, it is quite clear that it has not got so much to spend in purchasing goods; an over-production of goods, therefore, can only end in a disastrous fall in prices. And here, too, the beautiful action of this great law of nature is manifest. So enormous a proportion of the commodities of this country are produced by the credit system, that a rise in the rate of discount just hits profits between wind and water, as we may say. Consequently, a rise in the rate of discount retards and curtails production in proportion to the diminished consuming powers of the nation, and so prevents such a ruinous fall in price as would necessarily follow an undiminished production, accompanied by a diminished power of consumption.

52. In fact, when a commercial crisis occurs in a country, it invariably means that more persons are wishing to sell than there are persons to buy, or at least, at remunerative prices. A commercial crisis invariably arises from a lack of purchasers, which is, in fact, over-production. True prudence, therefore, shews that in all commercial crises, *production should be curbed*. It is much better not to produce at all, than to produce and be obliged to sell at a loss. To produce, and be obliged to sell below the cost of production, is loss of capital. It is better, therefore, not to employ the capital at all than to lose it. Raising the rate of discount, therefore, acts as a timely warning to producers to hold hard. It is necessary to dispose of the stock already produced, before producing more, and if the stream of sale is stopped while production continues, it can only end in a more aggravated fall at last.

53. Now, what is the necessary consequence of an attempt to



thwart this great law of nature? In time of scarcity of food, and a necessary export of money to buy it, if the rate of discount be kept unnaturally low, nothing but money will go; commodities are too dear, they will not go. Again, money being kept at an unnaturally low rate here, no one will bring it here from neighbouring countries, consequently, great quantities of money will go out and none will come in, till at last the circulating medium will be nothing but "promises to pay," and no money to pay them with. Then, at last, violent convulsions, total destruction of credit, every one wishing to sell, and no one wishing or able to buy.

54. On the other hand, if, when capital is flowing in with too great abundance, it be not repelled by a due diminution in the value of money, *i. e.*, a fall in the rate of discount, it will continue to do so until it is so superabundant that a violent fall takes place. Persons who are accustomed to depend on the incomes they derive from the interest of money, suddenly find that their means are seriously diminished. In the year 1824 there was such a plethora of capital in the country that the Scotch banks gave no interest on deposits; after 1824 came 1825. Then wild speculations find favor in the public mind, promising higher profits, and then the community goes through the cycle of bubble speculation, extravagant credit, ending in a commercial catastrophe. We may feel quite certain that if during the various crises this country has passed through, there had been more attention paid to observe the natural rate of discount, instead of thwarting the course of nature, though the variations would have been more frequent, they would have been less violent and extreme. If capital is coming in with too great speed, it is good to lower the rate of discount quickly to prevent it getting lower; if capital is going out too rapidly it is good to raise the rate quickly to prevent its being higher.

55. Such, however, is the perversity of men that many think that a uniform and invariable rate of discount is the great thing to be preserved, no matter what nature may say to the contrary, and their ingenuity is racked to devise a plan for always keeping it so, just as if the governor of the steam engine ought always to revolve with uniform velocity. Now, the inevitable consequence of taking these means to thwart nature will be, that when capital is scarce, it will be repelled by a lower rate than the natural one; when it is already too abundant, it will be still further attracted by a rate higher than the natural one.

56. The extreme anxiety of persons to attain an impossible object, always to have the power of selling debts due to them at a uniform rate, has led to a very prevalent theory, which seems

very innocent and simple. It being desirable always to maintain the currency at a uniform amount, they propose that, as gold goes out, paper should be issued to supply its place. This theory is adopted by Sir Archibald Alison, who says, after condemning the theory that gold and paper must vary together :—

“The true system would be just the reverse. Proceeding on the principle that the great object is to equalize the currency, and with its prices and speculation, it would *enlarge* the paper currency when the precious metals are withdrawn, and credit is threatened with a stoppage, and proportionally contract it when the precious metals return, and the currency is becoming adequate without any considerable addition to the paper.”

57. There would be certainly something specious in the idea of issuing bank notes to supply the place of the gold that went out, if, unfortunately, it had not been tried over and over again, and been attended uniformly with a catastrophe. When gold was leaving the country in vast quantities in 1796, the Bank of England still maintained its issues, against its own will, it is true, but yet the *fact* illustrates the *principle*, and the consequence was the suspension of cash payments in 1797. When the Bank had got right again in 1817, a drain for foreign loans began, and the Bank extended its issues in 1818, and the consequence was the second suspension of cash payments in 1819. In 1824, when bullion was departing from the country like a flood, the Bank extended its issues; then, when it saw itself right in the vortex of bankruptcy, it suddenly altered its policy, and the result of all this was the catastrophe of 1825. In 1838-9, a similar drain occurred, the Bank, with marvellous perversity, maintained its rate of discount considerably below the market rate, and the result was the monetary crisis of 1839. In 1847, there was the same error and the same result. Surely these instances are enough to destroy this fatal delusion.

58. In fact, Sir Archibald and the great body of public writers who share these sentiments, wholly mistake the object to be sought for in so delicate and artificial a machine as a paper currency. The object to be aimed at is not to preserve a uniform rate of discount in this country, but to maintain a uniformity in the value of the British currency with that of other countries. If money is made artificially cheap in this country, that is, cheaper than it is in neighbouring countries, persons in this country will *export* it to where it is of greater value; they will buy foreign securities, they will import foreign commodities. On the other hand, foreign nations will flood this country with their securities—just as the Americans did in 1839, when the Bank kept down the rate of discount below its proper level—because they can sell them at a better price here than in their own country. If a

man wishes to sell a horse, and my neighbour will only give £90 for it and I will give £96, he, of course, will sell the horse to me, and take away my cash. So, when the Americans wished to sell their debts, and found that in their own country they could only get £90 per cent. for them, whereas they could get £97 per cent. for them in England, as a natural consequence, they sent them to England for sale, and took away the cash. The only way for England to have stopped this would have been to give no more for these securities than the Americans would themselves; in other words, to maintain a uniformity in value between the currencies of the two countries.

59. When the foreign exchanges are unfavorable to this country, the simple meaning of that is, that it is profitable to export gold. Now, where is the gold got from for exportation? From the Bank of England. And how is it got from there? By getting hold of the Bank's "promises to pay" gold on demand. Now, when the Bank of England knows that a multitude of persons are trying to get hold of its "promises to pay," for the purpose of demanding gold for them, to carry out of the country, would it not be the height of folly in the Bank to be multiplying its "promises to pay" in all directions, and selling them cheap? This would be exactly as wise as if the captain of a ship, directly he saw a storm coming on, were to set all his studding-sails and royals. When the captain sees the tempest approaching, he must get down his top-gallant masts and reef his topsails; so, when a commercial tempest is threatened, it behoves those who pilot the vessels of credit to *contract* their "promises to pay."

60. The plan proposed by Sir Archibald, and a multitude of unthinking writers, is, that when gold is leaving the country, commissioners should be appointed to issue an equal amount of incontrovertible paper, which is to be withdrawn when gold comes back again. But what is to be done with the convertible paper already in existence? Is it to be declared inconvertible? For, as long as the rate of discount is depressed, there will be a constant demand for gold in exchange for notes, and a corresponding amount of *inconvertible* paper must be issued. Let this wonderful theory be put in practice, and the drain will not cease until every sovereign has left the country; and, moreover, they never will come back again. For, as the avowed intention is to keep down the rate of discount, and to keep up prices, there is nothing to bring the bullion back again. Nothing can bring it back again here, except we can sell our commodities or debts cheaper than other nations. But it is the avowed intention of these issues to prevent that; consequently, no bullion ever will come back.

61. But, moreover, this wonderful panacea of all monetary ills—issuing an inconvertible paper currency, to supply the place of the gold that goes out—is just our old friend John Law's scheme over again, of issuing paper currency based upon commodities. Those who advocate this think that the nation can send its money abroad to buy food, and have it as well in the form of paper money. Just as if a man might go into a shop, spend his money there in buying goods, and then have it again in the form of a "promise to pay." When will this stupendous delusion be eradicated from the public mind? If I have a certain quantity of money in my till, I may safely give a "promise to pay;" or, if I know for certain that money is coming in to me on a certain day, I may give my "promise to pay" at a certain date; but when I have actually spent my money, and it is gone away from me for ever, to think that I can then grant a "promise to pay" worth anything, is an idea which savours little of sanity. In 1696-7, during the re-coining of the silver, the Bank of England might have issued £1 notes with the greatest advantage and propriety for a temporary purpose, because it knew that it would shortly have the money to pay them with; but when the money is gone from the bank to buy corn abroad, it would be the most dangerous folly possible to issue notes to supply the place of gold.

62. But there are several other considerations which point out that the rate of discount is the true method of acting upon the paper currency. As soon as the exchange becomes so unfavorable as to make it profitable to export gold an immense number of bills are fabricated for the purpose of being sold for the sake of the premium; and these will continue to be fabricated as long as the rate of discount is kept below that of neighbouring countries; now, raising the rate of discount strangles all such operations in the birth. If only the *numerical* amount of notes be looked to, and the rate of discount be kept down, these speculators may get their bills passed, while legitimate trade bills may be refused. A moderate rise in the rate of discount will never inflict any real injury on trade at all equal to the refusal to discount trade bills altogether; and that is the result which has always ensued from a perseverance in keeping down the value of money below its natural level.

63. Moreover, when the nation is actually obliged to spend its money in buying foreign corn, or on any other object, such as war, it is quite impossible that it can have so much money to spend upon other things; its consuming powers, therefore, are diminished; it must economise in other things. Now, if the rate of discount is kept below its natural level, it stimulates and encourages production so much beyond the powers of con-

sumption, that it must necessarily terminate in an aggravated fall in prices. A timely raising of the rate of discount is, therefore, a warning to producers to contract their operations gradually. But keeping it unnaturally low, lulls them into false security; they maintain their engagements on credit on an undiminished scale, till at last, the Bank, for its own safety, is obliged to pull up on a sudden—to bring up all standing. Then follows a total refusal to discount, commercial panic, and ruin.

64. It is, then, an incontrovertible fundamental truth in monetary science, that specie and credit form the circulating medium, and that they must increase and decrease together. An increase of currency, without an increase of debt, has no effect but to diminish the value of the currency. The same thing happens, if, when debt is destroyed, currency is not destroyed with it. If a metallic currency increases faster than debt, nature provides a remedy—it is immediately exported. But, with an inconvertible paper currency, this cannot happen, and when debt is destroyed, currency remains in circulation; when this goes on for any length of time, or to any extent, the inevitable result is a depreciation of the paper currency, which is shewn by the rise of the market above the Mint price of gold. This was eminently exemplified in England in the years subsequent to 1810. The extravagant speculations were followed by an enormous destruction of capital; but the currency which was issued to represent it remained in circulation, and soon manifested itself in a rapid fall of the value of paper. It was impossible that paper ever should right itself, unless this superfluous currency was destroyed. It is recorded that an Irishman, once having taken a dislike to a banker, in order to spite him, collected a number of his notes and burned them. It would have been an excellent thing for the country bankers of England, in 1814–15, if some one had done the same kind office for them. The quantity of paper currency was so excessive, compared to what it represented, that nothing could restore it to its par value, but the destruction of a large portion of it; and this was brought about by the destruction of the issuers of it; and, when this was done, the value of the remainder rose to par.

65. We have gone over most of the theories of currency which have attained the greatest practical importance. That there are others, is true; but they have generally been confined to a small knot of fanatics. But, as they seem, at last, to have died out, we need not weary our readers' patience by disturbing their peaceful oblivion.



CHAPTER XII.

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ON THE ORGANISATION OF THE  
BANK OF ENGLAND,  
AND THE BANK ACT OF 1844.



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### ON THE ORGANISATION OF THE BANK OF ENGLAND, AND THE BANK ACT OF 1844.

FOUNDATION OF THE BANK—AN EXAMPLE OF LAWISM—SUCCESSIVE INCREASES OF CAPITAL—REORGANISATION BY SIR R. PEEL—HIS THREE STATES OF OPINION ON THE CURRENCY—ARITHMETICAL ERROR OF THOSE WHO THINK THAT THE BANK ACT ENFORCES THE CURRENCY PRINCIPLE—DISTINCTION BETWEEN THE BANKS FOUNDED ON THAT PRINCIPLE AND THE BANK OF ENGLAND—SUSPENSION OF THE ACT IN 1847, 1857, AND 1866—THE PRINCIPLES OF THE FRAMERS OF THE ACT OF 1844 QUITE DIFFERENT FROM THOSE OF THE BULLION REPORT—A STRICT ATTENTION TO THE RATE OF DISCOUNT IS THE TRUE WAY OF CONTROLLING CREDIT—THIS NOW GENERALLY UNDERSTOOD AND ADOPTED—THE BANK ACT MAY NOW BE SAFELY REPEALED, AS IT HAS CAUSED THIS PRINCIPLE TO BE UNDERSTOOD.

1. We are now, at length, in a position to take a comprehensive survey of the organisation of the Bank of England, and of the Bank Act of 1844. Of all the Acts in the Statute book, there is none which comes home to every man, which so nearly affects every man's interest, as this Act. Few persons are aware of its extremely complicated nature. We hear sometimes of the *principle* of the Act of 1844, as if there were but one principle involved in it! or as if the *object* of it were the same thing as the *principle*; the object it aims at, the same thing as the theory it adopts to obtain that object. Whereas, in truth, it is founded upon a multiplicity of theories—it is a combination of several theories of currency, and, moreover, devises a particular machinery for carrying them out. When, therefore, we consider its very complicated nature, we see what a boundless field of controversy it may give rise to; for each of the several theories it embodies may be partially or totally erroneous; and even if they be correct, the machinery devised for enforcing them may be imperfect, or erroneous, and inefficient for its purpose. We think, however, that we are now in a position to examine the theories upon which it is founded—to test them by the fundamental principles of monetary science established in the preceding chapters, and to point out those principles—if any—which it violates.

2. In the first chapter we obtained the great fundamental conception, which is the basis of monetary science, that money is the representative of debt, or services due; *that, where there is no debt, there can be no money.* In the preceding chapter we found that the fundamental error of Law's Theory of Paper Money is, that it creates currency where there is no debt for it to represent. The consequence of which is, that an additional quantity of material is poured into the channel of circulation, as it is called; that is, a greater quantity of material is required to do exactly the same duty as a smaller quantity did before; the consequence of which is a depreciation of the whole, which may proceed to any length; and we have given several examples of the practical results of this plausible and wide-spread, but delusive, theory.

We must now examine the organisation of the Bank of England, and we shall find that it, too, is based upon Lawism. •

3. The Bank was a corporation who advanced £1,200,000 in cash to Government. In exchange for this they received an equal amount of Government stock, with interest at 8 per cent., or an annuity of £100,000 a year.

Now, when they had received this annuity, they had already received an equivalent for their cash. But, *in addition* to that, they were allowed to *create* an amount of notes equal to their capital, to trade with, and it was supposed that the annuity of £100,000 in cash was sufficient to support the credit of these notes.

Now, we at once perceive the essential distinction between the Banks of Venice, Amsterdam, and Hamburg, and the Bank England. The former banks were examples of the CURRENCY PRINCIPLE. The bullion paid into them was kept, or was professed to be kept, in their vaults, and, as long as it was so, the credit created by them was exactly equal to the bullion paid in. Their function was solely to gratify the sigh of the Chinese writer, to exchange credit for bullion and bullion for credit. Hence these banks created no augmentation of the currency.

But the case of the Bank of England was manifestly wholly different. The Bank paid over the money to Government, who put it into circulation. The Bank received the annuity, and was *also* permitted to create £1,200,000 in Bank notes, and trade with them, by discounting bills of exchange, or otherwise. Thus, the Bank had not only sold its cash to Government, but it was also allowed to have it as well in the form of notes, to trade with and make a profit.

4. Now can any one fail to see that this proceeding *augmented* the currency by the amount of £1,200,000, and that the Bank made a double profit; first, the interest on the cash paid to

the Government, and, secondly, the commercial profit made by trading with the notes?

Therefore, so far as this went, this was clearly an example of LAWISM.

5. In 1697 the Bank was authorised to increase its capital by upwards of a million. Of this sum, above £800,000, was received in Exchequer tallies, then at a discount of 50 per cent., and £200,000 in its own notes, then at a discount of 20 per cent. Both the tallies and the Bank notes were counted as specie at their full nominal value; and upon this augmented capital of tallies and notes they were permitted to *create* an equal amount of new notes to trade with!

Law only proposed to issue paper money based upon the security of land, or some other solid article of value. But the Bank of England was permitted to create paper currency based upon the security of its own depreciated credit!

In 1709 the Bank was allowed to double its capital, and to *create* an equal amount of notes to trade with.

Now, is it not as clear as the sun at noon day, that each of these issues of notes was so much increase of currency, and an example of Lawism?

6. Now, if the same *principle* had been carried out to the present time, is it not clear that all the public funds would have been Bank stock, and that the Bank notes would have equalled the amount of the National Debt, or about £800,000,000? Some persons even now seem to think that this is a good principle. They seem to think, that if they carry stock to the Bank, they have a right to have it coined into notes to any amount. It is clear that this principle could never be carried out to its full extent. For, if it were true, Government might go on creating public debt *ad infinitum*, and then the Bank would create an equal amount of notes. If this principle be true, what would be the use of going to California and Australia for gold? Is not this *principle* more mad than any thing Law ever wrote? Law's issues of paper were *limited* by the value of the land, but this plan has positively *no* limits whatsoever.

7. Up to 1711 the issues of the Bank were strictly limited to the amount of their capital; and it was declared that, if the Directors exceeded that limit they should be liable in their personal capacity. Afterwards they were released from this limitation, and they were allowed to issue notes to any extent they pleased, provided always that they were payable in specie on demand.

And so the Bank went on till 1797, when it stopped payment, and committees were appointed by Parliament to investigate its



affairs, who reported it to be in the most solid and flourishing condition, and that they had a surplus of assets above liabilities of nearly 4 millions, besides the Government debt amounting to £11,686,800.

The reason of this was plain. The notes it had issued were given in exchange for mercantile securities, and, therefore, the Bank had as security for the payment of its notes, both the commercial bills and the Government debt.

This no doubt amply secured the solvency of the Bank and the payment of its notes, but it played utter havoc with the CURRENCY PRINCIPLE.

8. The Bank possessed the power of unlimited issue till 1844. On several occasions it had been most recklessly mismanaged. Proposals had been made to limit its powers of issue; but such a plan had been expressly condemned in the Bullion Report, and among numerous others authorities, by Sir Robert Peel in 1819, in 1826, and in 1833. In 1824 and 1825, in 1837, and 1839 an immense outflow of bullion took place, without the Bank taking any means to stop it. The consequence was that it was brought to the very verge of stopping payment.

9. We must observe that up till about 1772, all banking liabilities were created by means of *notes*: and to create and issue notes was the legal and well understood description of "Banking." We cannot say when the Bank adopted the custom and practice of creating liabilities by means of "deposits." However, whenever this was done it was clear that these *deposits* were equally liabilities with its notes. And its total liabilities were its notes *and* its deposits.

Soon after the last renewal of the Charter in 1833 certain writers of influence adopted the currency principle. They maintained the doctrine that Bank notes payable to bearer on demand alone were currency—to the absolute exclusion of all other forms of credit—and that when they were permitted to be issued, they ought to be exactly equal to the bullion they displaced, which we have seen was a Chinese principle, and also the principle of the Banks of Venice and Amsterdam. They maintained that all paper currency created in excess of this was a depreciation of the currency.

These doctrines being maintained by persons of eminence and influence converted Sir Robert Peel, who now entered upon the THIRD state of his opinions upon the currency question. It is frequently supposed that Sir Robert Peel had only *two* states of opinion on currency. But this is quite a mistake. In 1811 he repudiated Mr. Horner's doctrines, and voted in the majority that 21 was equal to 27. In 1819 he repudiated these doctrines and adopted those of Mr. Horner; and he expressly repudiated

the doctrine of the currency principle and the principle of imposing a numerical limit on the issues of the Bank; which doctrine he held up to 1833. In 1844 he had completely repudiated the doctrines of the Bullion Report, Mr. Horner, and his own of 1819, and formally adopted those of Lord Overstone, Col. Torrens, and others, which maintained the doctrine of the Currency Principle: and naturally and justifiably irritated by the incorrigible misconduct of the directors, he determined to impose a *numerical* limit on the issues of the Bank—

“Sic volvenda ætas commutat tempora rerum;  
Quod fuit in pretio, fit nullo denique honore,  
Porro aliud succedit, et e contemptibus exit,  
Inque dies magis appetitur, floretque repertum  
Laudibus, et miro'st mortaleis inter honore.”

10. In order to carry out this principle the Bank was divided into two departments—an issue department and a banking department. The Bank was to transfer to the issue department public securities to the value of £14,000,000, of which the original Government debt was to be a part, and also so much of the gold coin and gold and silver bullion as should not be required for the banking department. The issue department was then to deliver over to the banking department an amount of notes exactly equal to the securities, coin, and bullion so deposited with them. The Bank might diminish the securities as much as it pleased, cancelling the notes; and might increase them again, but not so as to exceed the preceding limit. In consequence of the lapsed issues of other banks, the securities upon which it may issue notes are now £15,000,000.

Thus the amount of notes issued by the Bank is strictly limited to £15,000,000 plus the amount of bullion held by the issue department.

11. It was supposed that these provisions secured that the quantity of notes in circulation would be exactly equal in amount to what a metallic currency would have been, and that the outflow of bullion would, by its own natural operation, withdraw notes in circulation to an equal amount. Having made these provisions, the framers of the Act supposed that they had taken out of the hands of the Bank all power of mismanaging the currency, and that they might manage the banking department entirely at their own discretion.

To say that the amount of notes should only be equal in amount to what a metallic currency would have been, is a very intelligible proposition, and, as we have before observed, several banks had been conducted on that principle, such as those of Venice, Amsterdam, and Hamburg, *but no Bank conducted on this principle ever did, or by any possibility could do, banking business.* Those banks were pure banks of deposit; they

did no discount business whatever; and if the Bank of England were forbidden to discount, there is no reason why it should not be reconstructed on this principle.

12. But if the framers of the Act of 1844 really believed that this Act carried out this theory into practice, no set of men ever committed a more manifest error. It is quite evident that the £15,000,000 of notes issued against public debt and securities are in direct violation of the "Currency Principle." How did the Bank obtain these securities? By purchase. Now, the purchase-money of these securities is in circulation, and the notes created on their security *as well*. Is it not clear that these 15 millions of notes are an *augmentation* of currency to that amount? If it be true that these 15 millions of notes are not a violation of the Currency Principle, then the very same argument would shew that the whole National Debt might be coined into notes, and then there would be no more paper in circulation than under a purely metallic currency!!

It is quite clear that this is pure and simple LAWISM; and, if we may coin the funds into money, we may just as well coin the land into money; and then where should we be?

13. Certainly, it is an excellent plan for every one to buy the funds with their cash, and then to be allowed to have it, too, in the form of notes. At all events, so long as this is permitted, let no one laugh at John Law.

But even this does not shew the full extent of the error of those who think that the Bank Act of 1844 enforces the currency principle. The banking department of the Bank does business like any other bank. That is, it purchases or discounts bills of exchange in the first instance, by creating credit in its books; that is, it increases its liabilities in another form besides notes. This credit is equally in excess of the metallic currency. The reserve of notes and gold being the basis of the Bank's power of creating credit, of course, they must use their own judgment as to how far they may safely extend this, just as every other banker does. But any one who examines the Bank's returns will perceive that its liabilities payable on demand exceed its notes in reserve and gold many times.

Therefore, it is quite clear that those who seriously maintain that the Bank Act really carries out the "Currency Principle," must maintain this proposition:—

$$\left. \begin{array}{l} \text{Twice 15 millions + an indefinite} \\ \text{number of millions} \end{array} \right\} = 15 \text{ millions.}$$

14. Now, we say nothing here as to the correctness, or the contrary, of the "Currency Principle," or as to the expediency of carrying it out; but to suppose that the Bank Act does really

carry it out is simply one of the most astonishing delusions that ever deceived the public mind. Truly, says Bastiat :—

“Être dupe d'autrui n'est pas déjà très plaisant ; mais employer le vaste appareil représentatif à se duper soi-même, à se duper doublement, et, *dans une affaire de numération*, voilà qui est bien propre à rabattre un peu l'orgueil du siècle des lumières.”

Every “banker” whatever who discounts a bill of exchange violates the “Currency principle.” There is no mode whatever of carrying out the currency principle but by abolishing discount banking altogether ; as we have already observed, the banks constructed on this principle did no discount business.

15. The framers of the Act of 1844 observed that on former occasions the Bank neglected to contract its issues while a drain of bullion was going on, until at last the amount of cash had run so low that, if any demand for gold had arisen from a discredit of the note, the Bank would have been obliged to stop payment. The aim and object of the Act was, that if any drain should arise after it came into operation, an exact amount of notes should be withdrawn from the hands of the *public*, or from circulation. Having secured that object, as they imagined, they left the directors free and uncontrolled in their banking business. For the first two years after the Act was passed no occasion occurred to test its merits ; it was a period of unusual prosperity and accumulation of capital. But when the first season of real trial came in the beginning of 1847, we have seen that the Act wholly failed in its intended effect of causing a withdrawal of notes in circulation, in proportion to the outflow of bullion. The directors pursued exactly the same fatal course as they had done on so many former occasions, and the result was the pressure of April. It was manifestly proved, therefore, that the Act provided no effectual check against mismanagement on the part of the Bank.

Now, as the Act notoriously and manifestly failed on this most important point, which was fully and candidly admitted by Sir Robert Peel, it becomes a natural inquiry to ask why it failed on this point, which it was supposed had been rendered so secure. We reply to this that the Act failed because it *aimed at the wrong mark altogether*. *It wholly missed the true point in the case.*

16. In fact, the Act proceeds on this fundamental fallacy, that the numerical amount of Bank notes is the only thing to be regarded. It quite overlooks the fact that Bank notes are only *one* form of making advances, and that the number of Bank notes required, depends, in many cases, on particular methods of doing business, which we shall illustrate more fully afterwards. The framers of the Act thought that over-issues were only manifested

by the numerical amount of notes in circulation, and that it was only the numerical amount of notes that could cause a depreciation of the currency, whereas the following is a truth of the most important nature, which had not at the time the Act was passed attracted the attention that it deserves:—

AN IMPROPERLY LOW RATE OF DISCOUNT IN MAKING ADVANCES IS, IN ITS PRACTICAL EFFECTS, A DEPRECIATION OF THE CURRENCY.

And this depreciation of the currency need not necessarily be manifested by any increase in the amount of Bank notes in circulation. We have before observed that when the exchanges are unfavourable to a certain extent, it becomes profitable to export gold. Persons, therefore, who have had no commercial dealings necessitating a payment, fabricate bills for the express purpose of selling them. Now, this practice causes no increase of Bank notes in circulation; on the contrary, they are not wanted: it is *gold* that is demanded and taken for export, and it steals out of the country noiselessly and unobserved. Also, if bankers in this country will perversely maintain the rate of discount lower here than in neighbouring countries, and, therefore, lower than the natural rate, persons in foreign countries send their debts or securities over here for sale, and the proceeds are remitted abroad. Consequently, this practice causes an export of gold without diminishing the notes in circulation. Of all species of property, debts are the most easily transportable. The charges even on the transmission of gold, are heavy compared to those on the transmission of debts. Debts to any amount can be transmitted from one country to another, at the mere expense of the postage. Consequently, if the Americans can only get £85 per cent. for their debts in their own country, and they can get £96 per cent. in England, of course, they will send them here in vast quantities for realization. This was eminently and notoriously the case in 1839, when the Bank of England kept its rate so perversely below the natural rate, and it was the cause that aggravated the drain of bullion to so alarming an extent. Hence, we have shewn that beyond the causes universally known for an export of specie, namely, payments of genuine debts, there is another and most potent cause, whose importance has only recently been sufficiently recognized—namely, an unnatural depression of the rate of discount, below that of neighbouring countries. Now, the weak point in the Act of 1844, is that it takes no notice of this grand principle, it takes no precaution that the directors of the Bank of England shall recognize it, and counteract it. On the contrary, it leaves them in full power to repeat their oft-committed error of causing a depreciation of the currency, from an unnaturally low rate of discount.



17. Any one conversant with banking business, or who has understood the details of it as given in this work, will at once see what an utter fallacy it is to suppose that the notes in the hands of the public must necessarily be reduced as gold is withdrawn from the Bank. Because all advances being made in the first instance by credit in its books payable in gold, whenever the Bank has made an advance to a customer by creating a "deposit" in his favour, he has simply to draw a cheque and take away the gold without a single note being withdrawn from circulation!

And this simple fact completely upsets the whole theory of the Act.

The fact is there are *two* leaks to the ship. The framers of the Act could only perceive *one*; and they only provided against one: and they were utterly astonished to find the ship rapidly sinking from the *other* leak they had forgotten!

18. This, too, shews the difference between the Bank of England and those banks which were really constructed on the currency principle. The latter banks created no credit except in exchange for bullion, consequently there was no method of extracting their bullion, except by withdrawing an equal amount of credit from the hands of the public. The Bank of England creates credit in exchange for bullion *and securities*; and this credit exists in two forms, notes *and deposits*: and the bullion is extracted from its vaults by drawing on its deposits by means of cheques, leaving the amount of notes in circulation wholly untouched.

19. Great and important, therefore, as is the object sought to be attained by the Act of 1844, and fully allowing that, after the repeated warnings the country had had, some legislative interference was absolutely necessary to secure that object, namely, the convertibility of the note, which had been so frequently endangered, we cannot help saying that never was more unfortunate and ill-adapted machinery devised for the purpose. The Act of 1844 is the combination of two of the most erroneous theories of currency that ever prevailed—the one, the "currency principle," and the other, that of "John Law," which are mutually inconsistent; a single £5 note issued upon securities, is as real an infraction of the "currency principle," as the French assignats. Moreover, it takes no measures to enforce the most important principle in the regulation of the currency—that of keeping it at uniform value with the currency of surrounding nations, and when, after having left this wide door open, as of old, to the most fatal mismanagement, such mismanagement produces its inevitable consequence, a continuous drain of gold, the method of righting the currency again, is that, of all others,

the most sure to cause a panic, and a total destruction of credit. When the Bank had so frequently kept down the rate of discount when they saw bullion diminishing, what was there to make them keep it up, when the notes were diminishing?

20. These remarks were strikingly verified in 1847. During the winter of 1846-7, and spring of 1847, a manifest and notorious drain of gold was going on, the directors trod in the steps of their predecessors of 1825 and 1839, they took no means of raising the value of the currency in this country. All the diminution of notes that took place was in their own reserves; accordingly, when the whole commercial world were under engagements already contracted, when the state of the Bank's resources was published, shewing almost the total exhaustion of the notes in reserve, a complete panic took possession of them. It must be remembered that at this time there was no *commercial* panic, it was caused entirely by the publication of the Bank's reserves, and was caused by the anticipated difficulty of obtaining banking accommodation. The most wealthy houses took care to make ample provision, the less powerful could get no assistance; discounts almost ceased; from having been kept unnaturally low so long, they sprung up with a corresponding force unnaturally high. If discounts had not been kept at 4 per cent. in January, they would not have been at 12 per cent. in April. The pressure of April happily passed off with fewer disasters than might have been expected. Prices then, were rapidly rising, and it does not appear that the speculations which ruined the great houses in the autumn had then begun. But when the autumn came, the commercial panic was dreadful, caused by the unparalleled series of disasters in so short a time. Now, there was no danger of the convertibility of the note at this time—the note was not discredited—consequently this was just one of the great crises in which all the great authorities—Sir Francis Baring, the Bullion Report—all the great statesmen in 1819, in 1825, in 1833, and Sir Robert Peel himself, at all those epochs, had declared that an *increase* of accommodation was the true remedy, more especially as the exchanges had been favorable for a considerable time. But this was just the time when it was published to all the world that the Bank had no power to grant accommodation—then, at last, the crisis was too terrible to bear, the Ministry were at last persuaded to authorize the Bank to violate the law, and make unlimited issues, only at a *very high rate of discount*. No sooner was this done than the panic vanished like the morning mist. But it was a fatal precedent, it was truly the death-blow to the Act of 1844, because it cannot be forgotten that Sir Robert Peel deliberately took away the discretionary power of the Bank of increasing its issues in such a case, because he flattered himself that he had effec-

tually prevented such cases happening at all. This precedent shewed that the Act of 1844 wants the indelible marks of a true principle, to be applicable in all cases, and to any extent. Nay, we must say that the operation of the Act in such a case, which we may fairly hope will never happen again, is the very worst method of meeting it that could be devised, and the very one most certain to convert a pressure into a panic. In such a case as this, when its resources are notoriously limited, and when, of course, the Bank would never permit itself to run really dry, except through the demands of its depositors, which it could not refuse, it is very certain that it will stop discounting altogether some time before it reaches its legal limit. Consequently, a general rush to secure notes takes place. Houses over-provide themselves, and, moreover, refuse to part with a single note,—a complete stagnation ensues, circulation is totally destroyed, ending in universal ruin, unless the law is repealed.

21. The precedent of 1847, we said in the first edition, is sure to be followed by the most disastrous consequences. On the occasion of every monetary pressure arising from natural causes, the relief that was given by the relaxation of the Act on that occasion will be sure to be demanded by a large portion of the public. Consequently, repeated and unceasing importunity of the Ministry, and every failure of a commercial house will be laid to their score. The breach of the law once, which was attended on a special occasion with such happy consequences, will be considered as a universal panacea for overtrading and unfortunate speculation, it will be supposed to furnish an inexhaustible source of cheap money. No reasoning will convince an immense portion of the gullible public that if they choose to spend their money in making war, they cannot have it on as cheap terms for commerce. This Act will, therefore, be a perpetual thorn in the side of every Ministry until they devise a scheme which shall really be self-acting, founded on the true nature of monetary science, and fitted to act on all occasions.

22. While we have indicated the weak points of the Act of 1844, and shewn how it fails to avert a crisis from its non-recognition of one of the most momentous principles of monetary science, we must not omit to say what it did really effect in that extraordinary year. While it failed to compel the directors to adopt a prudent course, it brought them up suddenly before they had run their full course of folly and imprudence. That a crisis would have certainly ensued in the summer we firmly believe, and if the Act of 1844 had not checked them in April, they would have had the same crisis in summer, with probably £2,000,000 of bullion instead of £8,000,000. Then would have followed the disasters of the autumn. The Bank, already all but

drained by the mismanagement of the spring, would have had to meet a new and tenfold aggravated crisis, with not more than two or three millions of specie in its vaults. We think it as certain as any event that never happened can be, that the Act of 1844, imperfect as it is, was the only thing that saved the country from a suspension of cash payments in October—that when the crisis came, the Bank had £8,000,000 of money to meet it with.

23. The framers of the Act take credit that it preserved the convertibility of the note in 1847, but this must be received with a very important qualification. There never was any question of the convertibility of the note then—so far from the note being discredited, it was Bank notes that every one was so eager to get. If the note had been discredited, and there had been a run for gold in exchange for notes, we very much doubt that the Act would have preserved the convertibility of the note. For, if the note had really been put in danger, the only way it could have been saved, would have been by the sale of public securities. But it is extremely doubtful whether the Bank could have sold public securities for gold in the great pressure of 1847, without causing such a ruinous depression of them, as would have been most injurious to the public interest. We believe that the mode of expression more nearly applicable to the state of the case was, that *if* the Bank note had been discredited, there was a greater stock of gold to meet the run than there would have been without it.

24. The fatal blot, then, of the Act of 1844, is, that it leaves the door open for exactly the same mismanagement which had brought on so many calamities before. Not only does it fail in preventing—contrary to the expressed anticipation of its framers—commercial and monetary panics; but, when they occur, it adopts the method most certain to aggravate their violence and intensity. For, when the resources of the Bank are already brought too low, it brings on them a demand for notes far greater than the wants of commerce require. People wish to get notes simply for the sake of self-preservation; then they hoard them, and keep them out of circulation. The most eminent witnesses said that between £4,000,000 and £5,000,000 of notes were hoarded, through the panic in October, 1847; but when everybody knew that they might get them, even at a very high rate of discount, the panic passed away, and an issue of £400,000 was sufficient to satisfy the public necessity. No man in business would not rather pay 20 per cent. discount for a supply of notes in some great emergency, than not have them at all. Now, as all the greatest statesmen protested against fixing a *numerical* limit on the issues of the Bank, because it imposed a prevention on the Bank acting in certain great emergencies,

and as Sir Robert Peel only justified his imposing a numerical limit on its issues, because he anticipated that the self-acting working of the Act would prevent those emergencies arising, and, seeing that the expectation was wholly falsified, it follows, as a necessary consequence, that the whole machinery of the law should be altered. Moreover, the Ministry themselves gave the preference to determining the rate of discount, rather than the numerical amount, in the great crisis of 1847. For those who urged them to relax the Act suggested that the limit should be placed upon the quantity of notes issued; but the Government most wisely, and acting upon the fundamental principles of the science, left the numerical amount free, but limited the rate of discount; and what was the consequence? £400,000 of notes stayed the panic! Now, we venture to affirm, that if they had adopted the other alternative proposed to them, and if the commercial world had seen that the total relief was limited to a paltry £2,000,000, it would have a very small effect in allaying the demand. The probability is, that they would have been soon absorbed. Hence we "conclude that reason, evidence, and experience combine to demonstrate that" it is a false and dangerous principle to fix the numerical amount of paper issues, and that THE ONLY TRUE METHOD OF REGULATING THE PAPER CURRENCY IS BY A PROPER ADJUSTMENT OF THE RATE OF DISCOUNT.

25. Such were the remarks we made in the first edition of this work, published in 1856, the result of our own practical observation of the business of banking; from an attentive study of the doctrines of the most celebrated writers on the subject, practical and theoretical; and the experience of the single crisis of 1847. And has not time verified the truth and the justice of our doctrines to the very letter? Since 1856 we have had two great crises, and on each occasion the course indicated in the former edition has been strictly followed.

A great drain of bullion took place in the Autumn of 1855, the Bank at last learnt wisdom, and rapidly raised the rate of discount; there was, of course, considerable pressure, but there was no panic, and everything passed off smoothly. The advocates of the Bank Charter Act took immense credit to itself for that fact. They uniformly asserted that it was owing to the Act. Of this we shall say something more further on. But it is manifest that, in order to establish that fact, they must prove that the Bank would have misconducted itself without the Act. Unless they can prove that it was owing to the Act that the directors behaved on the principles of common sense, their assertion is absurd.

26. Well, then, there followed the great crisis of 1857, which seems to have taken the world generally by surprise. As the



pressure deepened into a panic, the supporters of the Act cried out that it must on no account be violated,—that every man of honour was bound to adhere to it. On Thursday, November 12th, the Bank of England closed its doors with £580,751 in London and all its branches in the country, to meet liabilities of £19,000,000. On that night the Bank in London closed its doors with £68,085 in notes; £274,953 in gold coin; and £41,106 in silver coin. The bankers' balances alone were £5,458,000!

This was the severest crisis the Bank ever had. On other occasions the Bank had been said to be within 48 hours of stopping payment; but on this occasion it *was within an hour*. If the Government had not authorised a suspension of the Act there can be no possible doubt that the Bank could not have kept its doors open an hour on Friday morning, the 13th.

27. We have shewn that the Act does not carry out the currency principle; but at Hamburg this principal is really in full force. And there it was found necessary for the Government to interfere to create a solid credit to support solvent merchants.

28. The great crisis of 1857 passed away. As usual, the commercial world was so prostrated that the spirit of enterprise was paralysed, money flowed back to the Bank, and discounts fell very low. Again in 1864 a severe pressure took place, which the Bank very properly met by rapidly raising the rate of discount. This pressure lasted more or less for 15 months, and then subsided, and was undoubtedly overcome by the proper management of the Bank. But nothing could exceed the glorification of the supporters of the Act. The safety of the Bank and of the country was due to that Act, and it was never again—no never—never again, on any pretext whatever to be broken. Whatever might happen, all Europe and America might be wrapped in universal flames of war—the commercial world might be falling in ruins—but never again was any one to expect that the Bank Act of 1844 was to be suspended. The famous New Zealander might come—the British Empire, and all British legislation, might have perished, but the Bank Act of 1844 was to survive as the sole monument of British glory. Well, the great crisis of May, 1866, came, in whose throes we still are tossing. Bank after Bank went down. Still the advocates of the Act maintained that no one must expect it to be suspended.

However, at last, when it became unendurable, the Cabinet held a hurried meeting in one of the committee rooms of the House of Commons, and, amidst the universal cheering of the House, announced that they had authorised a third suspension of the Act!!

If they had not done so, there can be no possible doubt but that at this instant there would scarcely be a Bank standing in England.

29. The experience of these successive crises has amply vindicated the wisdom and the truth of the doctrines of Sir Francis Baring, the Bullion Report, and the host of authorities of the highest eminence, who unanimously condemned the *numerical* limitation of the Bank's power of issue.

The supporters of the Act of 1844 strenuously maintain that it is a complement of, and in strict accordance with, the principles of the Act of 1819 and the Bullion Report. We shall now endeavour to test the accuracy of this assertion.

I. The Bullion Report declares that the mere *numerical* amount of notes in circulation at any time is no criterion whether the notes are excessive or not.

The theory of the supporters of the Act is, that the notes in circulation ought to be exactly equal in quantity to what the gold coin would be, if there were no notes, and any quantity above that is an excess, and a *depreciation* of the currency.

Is this principle of the supporters of the Act in accordance with the principles of the Bullion Report?

II. The Bullion Report declares that the sole test or criterion of the depreciation of the paper currency is to be found in the price of gold bullion, and the state of the foreign exchanges.

According to the supporters of the Act, the true criterion is, whether or not the paper exceeds in quantity the gold it displaces.

Is the theory of the supporters of the Act in accordance with the doctrine of the Bullion Report?

III. It was proposed to the Bullion Committee for the mismanagement of the Bank, that a positive limit should be imposed on the issues of the Bank. The Bullion Report expressly condemns any positive limitation of the issues.

The Bank Act of 1844 specially limits the issues of the Bank.

Does the Bank Act of 1844 coincide with the principles of the Bullion Report?

IV. The Bullion Report, after discussing the two most important commercial crises which had occurred up to that time, those of 1793 and 1797, decisively condemned the conduct of the Bank in both of them, and declared its opinion that the excessive limitation of discounts at those times greatly aggravated the distress, and says that at certain crises to which our paper credit is exposed, *an enlargement of accommodation is the true remedy*, and that too severe a contraction may lead to general ruin. In the crisis of 1793, when the Bank refused to assist the commercial world, the Government came forward and issued Exchequer bills, which was the same thing in principle.

In 1797 the Bank again mercilessly restricted its discounts

while the exchanges were favourable, and the consequence was, it stopped payment.

In 1825, after having inflated credit in the previous year with excessive issues, while the bullion was flowing out of the country, during the crisis in December, it adopted the policy of excessive restriction; when it was itself just on the point of stopping payment, it suddenly changed its policy, it made the most profuse issues; these immediately stayed the panic; not only was the commercial world saved from utter ruin, but the Bank itself was saved from stopping payment.

In 1836 a great crisis was imminent; on this occasion the Bank, foreseeing the crisis, adopted the boldest measures before it came on, and made immense issues to sustain commercial credit; the policy was quite successful and averted a great panic.

In the Autumn of 1847 the restrictive policy was adopted and enforced by law. When the whole commercial world was on the point of ruin, and the Bank itself was on the point of stopping payment, the Government authorised the Bank to break the Act, and make unlimited issues at a high rate of discount. The panic was stayed in an hour, and £400,000 of notes were sufficient to satisfy the demand.

In 1857 the panic was more terrible than in 1847. The Bank was brought within an hour of stopping payment. The Government again authorised the Bank to break the Act. This saved not only the Bank itself, but every other bank in London from stopping payment. On this occasion the Bank greatly exceeded the legal limits.

In 1866 came the next great panic, which was peculiarly a banking panic. Again it was seen that the maintenance of the Act would have caused every bank in the country to stop payment, and for the THIRD time the Government authorised the Bank to break the Act; and the panic was stayed.

The Bullion Report expressly says that, in certain commercial crises, the Bank should extend its issues liberally to support public credit.

The Bank Act of 1844 expressly prevents this being done.

Is the Bank Act of 1844 in accordance with the principles of the Bullion Report?

On these fundamental points, therefore, the Bank Act of 1844 is in direct opposition to the principles of the Bullion Report, and we think that ample experience has proved the greatly superior wisdom of the Bullion Report.

30. We thus see that Sir Robert Peel was greatly deceived in his expectation that the limitation of the Bank's power of issue would prevent commercial crises. On this occasion he erred, as so many others have erred, in Economics, by too limited a consideration of facts. It is true, that on *some* occasions the Bank

had fostered an over-spirit of speculation by too profuse an issue of notes. But commercial crises occur from other causes besides; they have occurred when there was no profuse issue of notes, and in places where there were no notes beyond bullion. Whenever there are expected to be great fluctuations in prices from whatever cause arising—either from great scarcity or from great abundance—from the transition from peace to war, or from war to peace—from the discovery of new profitable openings of every description—from great disturbance in the usual course of trade—the speculative or gambling propensity is sure to be called forth, and lead to a pressure more or less intense. In 1694 the first joint stock mania took place, when there was no excessive credit. In 1720 there was no excessive issue of notes. In 1763 there was no excessive issue of notes, and the great commercial crisis of that year took place at Amsterdam, where the “Currency principle” was in full operation. In 1772 there were excessive issues of notes, which greatly conduced to the crisis. In 1783 the crisis seems to have been due to the transition from war to peace. Before 1793 there were excessive issues of notes by the miserable traders whom the monopoly of the Bank permitted to grow up as bankers. Previous to 1797 the Bank itself had made excessive issues, compelled thereto by Pitt. In 1808 the Bank greatly fostered the spirit of speculation. In 1824 and 1825 the Bank was far too long before it contracted its issues. So also in 1836 and 1839. But in 1847, 1857, and in 1866, the great crises were in no way whatever attributable to excessive issues. In 1847 it was excessive railway speculation. In 1857 it was due to a series of causes wholly irrespective of issues, and in that year the severity of the crisis at Hamburg, where the “Currency principle” is carried out, was so great that the Government was obliged to come forward to create a solid credit to support solvent houses. In 1866 there were no excessive issues of notes. The most bigotted opponent of the Bank could by no possibility say that the crises of 1857 and 1866 were in any way whatever attributable to the Bank, or could, by any possibility, have been averted by any management of the Bank.

The crisis of 1808 was due to the sudden opening of the South American markets. That of 1825 to the anticipated profits on working foreign mines. That of 1836 partly to the rapid extension of Joint Stock Banks. That of 1847 to excessive railway speculations. That of 1857 to excessive trading, especially in America. That of 1866 to the too rapid extension of Financial Companies on the limited liability principle. Hence we see that a law made on the supposition that all crises are caused by a single circumstance, and whose operation is only adapted to that cause, must necessarily fail.

31. Sir Robert Peel was further in error in saying, that during periods of commercial crisis private persons make advances. It may, perhaps, happen that here and there a private person may assist a friend, but, as a general rule, it is wholly without foundation. It was observed, before the passing of the Act, that in times of commercial pressure there was a general tendency to hoard. This was observed in 1825, in 1836, and in 1839. And this tendency was greatly aggravated by the Act of 1844, and was displayed with far greater intensity in 1847. When the public saw that the Bank's reserve was diminishing so rapidly, and no one knew what would be done, a general rush was made at its notes, and they were hoarded away in millions. No sooner was the Act suspended than they came forth in millions from their hiding places, and the panic passed away. Therefore, in this fundamental point, there is no doubt whatever that Sir Robert Peel was entirely wrong, and that the allegation of the opponents of the Act is strictly justified—that, when a pressure reaches a certain point, the Act aggravates and intensifies it into a panic, which can only be allayed by the suspension of the Act.

Moreover, Sir Robert Peel was quite mistaken in supposing that bankers only make advances out of *bonâ fide* capital. This is so fully set forth in the section on the Theory of Banking, that we need only remind our readers that all banking advances are made, in the first instance, by CREATING CREDIT. Every banker knows perfectly well that an excessive restriction of credit causes and produces a run for gold. When the banks see that they can get no assistance from the Bank of England, they must cease discounting. But if they cease discounting, their customers have still engagements to meet, which, of course, they will do as long as they can; and, in order to do so, they have no other resource but to draw their balances, and this, of course, will end in making their bankers stop payment; and bankers and customers will all fall together.

This is so perfectly well known to every practical banker that it is superfluous to quote authorities. We will, nevertheless, quote Mr. Henry Thornton, one of the authors of the Bullion Report. In his *Inquiry into the Nature and Effects of Paper Credit*, p. 245, he says: "Two kinds of error on the subject of the affairs of the Bank of England have been prevalent. Some political persons have assumed it to be a principle, that in proportion as the gold of the Bank lessens its paper, or, as is sometimes said, its loans (for the amount of the one has been confounded with that of the other) ought to be reduced. It has been already shewn, that A MAXIM OF THIS SORT, IF STRICTLY FOLLOWED UP, WOULD LEAD TO UNIVERSAL FAILURE." This is exactly the principle of the Bank Act of 1844, and such would have been the conse-



quences of it in 1847, 1857, and 1866, if it had not been suspended on each occasion.

This operation of the Act was quite misconceived and wholly omitted by Sir R. Peel, and is too obvious to be gainsayed. When the run for gold takes place Bankers must sell their securities at any sacrifice. It is perfectly well known that the losses on the sale of public securities during the panic of 1847 were enormous. These forced sales depreciate the prices of the securities, and when the Act is suspended the prices of the securities rise again, and then banks have to buy back, at a greatly increased price, the securities they were compelled to sacrifice. This is a subject of the most legitimate complaint, and these losses are directly due to the operation of the Act.

32. Sir Robert Peel was, moreover, entirely wrong in his description of American banking. It is a very remarkable circumstance that in his speech on the great crisis of 1825 he was loud in his praises of the Scottish system of banking, and said that, if the country had possessed a set of banks on the Scotch system, it would have escaped the danger of 1793 and 1825, and that the root of the evil lay in the monopoly of the Bank of England. However, in 1844 he completely ignored the existence of the Scotch banks, and set up as his idol the United States Bank! It is far too long to give an account here of American banking, and to shew how completely erroneous his statements were respecting the United States Bank. The history of banking in America is given at length in our *Dictionary of Political Economy*, and to that we must refer, and there it will be seen that the United States Bank was so mismanaged as to be a great curse; it fell amid the general execration of the people; and it was found to be utterly insolvent! And this was Peel's *beau idéal* of a Bank! But the fact was that Peel was entirely determined to have nothing but a *Single Central Bank of Issue*, and the Scotch system militated against that doctrine, and, therefore, he said nothing about it.

33. Setting aside, however, altogether the false *definition* of currency, and the false *theory* of currency upon which it is founded, the general objects of the Bank Act were perfectly correct. And, after the repeated and incorrigible mismanagement of the Bank by its directors, some legislative interference was absolutely indispensable. Nor, if it were determined to leave a monopoly in the hands of the Bank, and to leave its direction in its former state of organisation, would it probably have been easy to devise a legislative restriction open to fewer objections. The objects of the Act were extremely simple. The Bank had repeatedly neglected to contract its issues when bullion was rapidly leaving the country, thereby encouraging

the increase of business, and keeping up prices, so that the commercial world found themselves deep in engagements, the prices of goods were too high to be exported in an adverse exchange, and, consequently, nothing but bullion went. When at last the Bank, seeing itself drifting into bankruptcy, violently contracted its issues, whereby commercial men had no means of meeting their engagements, and the prices of goods were suddenly forced down involving every one in ruin. The object of the Act was to compel an early and gradual contraction of issues, thereby to produce an early and gradual reduction of the prices of goods, to enhance the value of bullion here, so as to cause it to be kept here, and goods sent abroad to rectify an adverse exchange.

Now, all the objects of the Act, are attainable in another way. In the first edition of this work, we explained and enforced the principle that a sedulous attention to the rate of discount was the true method of controlling paper credit. This is so fully explained in the chapter on the Theory of Credit, and the Theory of the Exchanges, and the preceding chapter, that we need not repeat here. We have only to say, with the greatest satisfaction, that the truth of this doctrine is now universally recognized by all competent authorities and the public generally.

34. The first edition of this work, in which that doctrine was demonstrated, was published in 1856. In 1861 Mr. Göschel, in his *Theory of the Foreign Exchanges*, says:—

“From the foregoing, it seems to be evident, that when the exchanges are manifestly against any country, and it is perceived that excessive indebtedness is the cause, there are only two modes of restoring the equilibrium—the one being to increase the exports, and diminish the imports—the other TO RAISE THE RATE OF INTEREST. \* \* \*

“In both cases, that which will effectually bring the gold from abroad, in the most general and practical sense, will be the opportunities offered by a *high rate of interest*, to effect profitable and attractive investments.”

“The efficacy of that corrective of an unfavourable state of the exchanges, on which we have been dilating, has been most thoroughly tested by late events. Every advance in the Bank rate of discount has been followed by a turn of the exchanges in favour of England, and *vice versa*, as soon as the rate of interest was lowered, the exchanges became less favourable.”

In 1857 a Committee of the House of Commons was appointed to inquire into the Bank Acts. Mr. G. W. Norman, one of the most prominent advocates of the currency principle, was asked:—

Q. 3,529. “Is it not principally by raising the rate of interest that you check the amount of discounts which may be demanded of you?”

"Yes; we have found, *contrary to what would have been anticipated*, that the power we possess, and which we exercise, of raising the rate of discount, *keeps the demand upon us within manageable dimensions*. There are other restrictions which are less important. *The rate we charge for our discounts, we find, in general, is a sufficient check.*"

What testimony can be more satisfactory than this? Mr. Norman has always been one of the most prominent supporters of the currency principle, and the Bank Act, and, in 1857, he frankly confesses that the method we DEMONSTRATED in 1856 is perfectly correct.

On January 2, 1864, the *Economist* said:—"The Bank of England has only to raise its rate of discount, and supplies flow to it from all quarters."

On November 12, 1864, it said:—"The best method—the sole method—to contract the entire credit currency in this or any other country is to raise the rate of interest."

On September 9, 1865, it said:—"This mode of treating the malady [*i. e.*, efflux of bullion] is establishing itself in the practice of Europe."

Since the publication of our work in 1856, the Bank of France, which had repeatedly lost large sums in trying to prevent an out-flow of bullion, has been governed most successfully on this principle; the usury laws in France having been modified for the express purpose of enabling the Bank to adopt it. And the Bank has had no artificial restriction or limitation of their powers of issue.

But not only is the truth of this doctrine now recognised by competent authorities, but by the public generally. Formerly every raising of the rate of discount was saluted with howlings and ravings by a large portion of the press. Now, the press watches the state of the Bank with the greatest vigilance and attention, and sometimes even complains of the delay of the directors. The public and the press is now determined that the Bank shall maintain itself in a position to pay its promises in gold.

And, notwithstanding all its errors and defects, and the undoubted mischief worked by it, this is the great redeeming and inestimable merit of the Bank Act. It has effected the great purpose of manifesting the truth of this doctrine to the directors and the public. Individual writers might have gone on for a long time unheeded, in the supercilious disdain with which they are usually treated. They might have demonstrated the matter as clearly as Euclid or Newton could have done, but they would have received mighty small attention. The inestimable benefit of the Act has been that it has forcibly compelled the directors to learn and adopt it.

35. The method of carrying out this principle was fully explained in the former edition. Let the directors settle in their own minds what sum ought to be retained in the country at all hazards, as indispensably necessary to support the credit of their notes, *i. e.*, to maintain their convertibility. Let them then determine upon such a rate of discount as it would render it beyond the bounds of any ordinary contingency that their treasure could leave the country when discount was at such a rate. \*In our former edition we suggested the sum as indispensable to be retained as £8,000,000, and the rate of discount as 10 per cent. Then, as the bullion gradually increased, discount might be lowered. In that edition we merely suggested a scale to shew the principle of the plan, which we may repeat, to see how it has been tested by experience. The following figures shew the amount of bullion, and the minimum rate at which discount ought to be at the various amounts of the bullion:—

£20,000,000.....	2½	£10,000,000.....	8
17,000,000.....	3	9,000,000.....	9
15,000,000.....	3½	8,000,000.....	10
14,000,000.....	4	7,500,000.....	11
13,000,000.....	4½	7,000,000.....	12
12,500,000.....	5	6,750,000.....	13
12,000,000.....	5½	6,500,000.....	14
11,500,000.....	6	6,250,000.....	15
11,000,000.....	6½	6,000,000.....	16
10,500,000.....	7		

Now, of course, the scale offered was merely tentative, to illustrate the method; the details were, of course, open to consideration, and were liable to be affected by many circumstances. On comparing this table with what has been done since 1856 it will be seen that its principle has been thoroughly adopted. On comparing the tables already given with those given at the end of this chapter it will be seen that since then the Bank has been managed entirely on this plan. And while the rates we proposed in 1856 were considerably more stringent than any which had been previously adopted, the rates that have prevailed recently are more stringent than we proposed. And this, of course, perfectly proves the truth of our doctrine, as the Bank itself having greatly increased in magnitude since then, as well as all the other great monetary institutions of the country, and monetary transactions being conducted on a much greater scale than formerly, it is manifest that the reserve of bullion ought to increase in corresponding ratio. It will be seen that the rates charged by the Bank have on repeated occasions been exactly those of our table.

And now we say that the Act of 1844, having effected this great purpose of indoctrinating the directors with the true

principles of the subject, *may safely and advantageously be REPEALED*. It has done its work, and can do no further good. Like many other Acts which may have been necessary, and have done good in their day, times may come when they become useless and even mischievous. When the great principle of regulating and controlling paper credit by means of the rate of discount is thoroughly understood and really acted upon as it has been for many years, the Act of 1844 has become superfluous and useless, and in times of great commercial crisis it is an unmitigated nuisance. And there is now the greater reason to repeal it, because the interests it affects are already on such a stupendous scale, and are constantly increasing, and at every succeeding crisis the catastrophes are constantly increasing in magnitude.

36. But in order to do this effectually, means should be taken to efface that great scandal of monetary science—the issue of bank notes on public securities—that sanction of *Lawism*. The Government paid off in 1833 one fourth of the public debt to the Bank. The Chancellor of the Exchequer has recently been touched, and has endeavoured to touch the public, with qualms of conscience about the magnitude of the National Debt, and the duty of discharging it. This is not the place to discuss the morality of the general question of paying off the debt, or the merits of the particular scheme in question. But there can be no doubt whatever of the great expediency and propriety of discharging the National Debt to the Bank, which is comparatively insignificant. That is a great practical object which can be accomplished with perfect facility. The Bank should receive the whole of the debt due to it from the public, and then it might invest such portion of its capital as it pleased in public securities just as any other Bank may. But it should not be permitted to spend its money in buying stock, and have it too in the form of its own notes. Moreover, this is absolutely necessary in order to deliver the country from the degrading thralldom it has been under to the Bank for a century and a half, and to enable Parliament to establish the monetary system of the country on true foundations.

37. The Act has, therefore, had the undeniable merit of compelling the directors to pay a strict attention to the rate of discount; and since that time this principle has been constantly gaining ground, and is now fully understood. The feeling of writers and the public has undergone a wonderful change in this respect within the last few years. It is not so very long ago since the directors were covered with abuse in many papers whenever they raised the rate of discount. Even writers of eminence, and among others, Mr. Tooke, make it an accusation



against the Act that variations in the rate of discount have been much more frequent since it was passed, and they exhibit tables of these changes. But, in fact, these tables are just so many testimonies to its merits; and this is happily well understood now. Instead of being abused, the directors are commended; and if they do not take timely measures, they are urged to do so by the papers.

Now, we think that the Act is justly entitled to this merit, and it is of the first magnitude.

The real and fundamental objection to the Act is its operation during a commercial crisis. Ample and undeniable experience has proved this in a way that cannot be gainsayed. Its plan and its theory were known to the most distinguished authorities a very long time ago, and were expressly condemned by them, and its mischievous effects foreseen and predicted long ago. The advocates of rigorous restriction, and the advocates of enlarged issues during a crisis, have both placed their arguments before the world, and repeated experience has shewn that the advocates of enlarged issues are in the right. The restrictive policy has uniformly failed. The only instance in which it was fully carried out brought on a suspension of cash payments, and in the others it would have done so, if it had not been abandoned.

It has often been said that, on such occasions, houses that have overtraded should be allowed to fall, and that it is not the duty of the Bank to bolster up insolvent concerns, and that it is to the advantage of commerce that they should be swept away. If this course of argument were applied only to insolvent houses, it would, no doubt, be true. All insolvent houses should be swept away; it is quite true that the Bank has no business to bolster them up. Nay, to do so is to do an injustice to their creditors; for, as the Bank will, of course, do its best to take security for its own advances, that takes away so much from the other creditors.

If the question touched insolvent houses only, the restrictive policy would, no doubt, be correct. But the fact is, that the mischief extends much further than to them. By the modern system of credit, houses in commerce are so connected with one another, that the public are wholly unable to tell which are solvent and which are not. The consequence is that a general distrust of all paper whatever arises. The paper of the greatest houses becomes unmarketable. The Bank only has the means of judging which houses are solvent and ought to be supported, and which are insolvent and ought to fall. All experience proves, and all the most eminent authorities of former times have declared, that there must be some means of extending support to really solvent houses; and of that power of support the Act of 1844 wholly deprives the Bank.

In times of panic every one wishes to obtain some solid credit.

Even when the Bank is allowed unlimited issues, if it is expected that the rate of discount is to be raised, people hasten to get discounts, or to get notes to hoard for the sake of security; and if they cannot get Bank notes, they demand gold.

In ordinary times, raising the rate of discount checks the undue expansion of credit, and the demand for notes, and prevents the efflux of gold. But in times of panic, though, of course, the rate of discount ought to be raised to attract gold from abroad, and to prevent its export, it has no effect whatever in checking the demand for notes. It is, then, not a question of profit, but of existence. When the power and the resources of the Bank are visibly diminishing before the eyes of the commercial public, every one thinks only of his own security. In such circumstances, raising the rate of discount has only the effect of making the demand for notes stronger. Every one will rush to overprovide himself, and then hoard away the notes. This was decisively proved by the experience of 1847, when many millions of notes were hoarded away, but which came out of their hiding place as soon as the Act was suspended. Hence it is the very consequence of the Act to make the demand for notes much more intense than it would otherwise have been; and if notes are not to be had, then a run for gold commences. This was the case in all former cases when the restrictive policy was carried out, and especially in the great crisis of 1857, when a very few hours more would have compelled all the banks in London to stop payment.

The Act of 1844 was avowedly passed because the directors were shewn to be incapable of managing their own business. It was the severest stigma that could be placed upon them. It was a public declaration, either that they did not know the true principles of banking, or that they had not the firmness to act upon them. If they had conducted the business of the Bank on sound principles, there never would have been any need for the Act; and, if it were well ascertained now, that for the future, the directors were determined to obey true principles, there would be no further need of it.

And this is what we believe to be the case. For several years past, the management of the Bank has been unimpeachable. It is well understood now, not only in the Bank parlour, but by the general public, that the Bank must be kept in a position to put all danger of the convertibility of the note out of all question; and this is to be done only by carefully adjusting the rate of discount to the state of the foreign exchanges. The general intelligence of the public has amazingly advanced on this point within the last few years; and, even if there were any reason to suppose that the directors were inclined to depart from these sound principles, which there is not, the increased knowledge

and intelligence of the public would compel them to keep the Bank in a solvent position.

Fully allowing, then, that this merit is really attributable to the Act, for which it is entitled to the highest commendation, it may be truly said that it has done its work, and that there is no longer any necessity for it, and may now, with propriety, and ought to be, repealed, so far, at least, as regards the limitation of the issues of the Bank.

38. By the confession of its own framer, the expectation of its power of preventing a crisis was over-sanguine. It had been observed that the Bank had greatly contributed on many former occasions to produce commercial crises by over-issues; and the conclusion was too hastily drawn that over-issues of the Bank were the *only* cause of commercial over-trading. Mr. Cobden even said that if the currency were purely metallic, accommodation paper would be prevented. Sir Robert Peel said distinctly that it was better to take measures to prevent paroxysms than to trust to desperate remedies to cure them. He, therefore, took away the power of cure, because he imagined that he had prevented the disease. But ample experience has shewn that in this he was too sanguine. Nay, the supporters of such a doctrine need only to look to the experience of those countries where the very principle they admired so much was in full operation, to see the erroneousness of such an expectation. The Banks of Amsterdam and Hamburg were expressly founded on the "currency principle." They gave no credit whatever except in exchange for bullion, and commercial crises were just as severe, nay, probably more so than in England. In the great crisis of 1857 at Hamburg discount rose higher than in London, and the Government were obliged to come forward to interpose their credit to protect the credit of the merchants, because the Bank could not do so. And there can be no reasonable question that if it is absolutely necessary to do such a thing, it ought to be done by a great commercial establishment like the Bank of England, on the recognized principles of business, rather than by the abnormal interference of Government.

39. The peculiar state of the law with regard to Bank of England notes adds still further force to this view. Contrary to the earnest remonstrance of Sir Robert Peel in 1833, Bank of England notes were made legal tender between all parties, except when the Bank itself is one, so long, and so long *only*, as the Bank pays them in gold on demand. Now, suppose it is generally known that the Bank is about to suspend payments, debtors may go and compel their creditors to receive payment of their debts in Bank notes, and perhaps the very next hour the news comes that the Bank has stopped payment, and then these

notes are so much waste paper in the hands of the very men who were compelled to receive them an hour before. They were compelled to receive payment in paper, and an hour afterwards they are compelled to pay their own debts in nothing but gold. This is no imaginary case. Every man in London on the 12th November, 1857, knew that the Bank of England could not have been kept open for two hours on the 13th unless the Act was suspended, and directly the Bank stopped payment its notes would have ceased to be legal tender; not a bill could have been paid in them except at the option of the payee.

40. While, therefore, we admit that one great merit which its admirers claim for it is undoubtedly true, it cannot be denied that a very serious charge brought against it by its opponents is also true. Experience, as clear as the sun at noonday, has shewn that it is wholly powerless to prevent a commercial crisis, and when a crisis does occur it intensifies its pressure, and converts a crisis into a panic, which is certain to end in universal failure, including the stoppage of the Bank itself. It then deprives the Bank of what all experience has shewn to be the only remedy for such a state of affairs. On each occasion when this has happened already, the Government have found it necessary to resort to the most desperate course in a constitutional country, namely, to give their solemn sanction to a deliberate violation of the law. Every one knows that commercial crises will recur periodically, and every one knows that on their occurrence every Government will be obliged to pursue exactly the same course. In fact, it would be far more hazardous for the Government to abstain from violating the law than to do so. What example can be more pernicious in a constitutional country? What is the use of a law that every one knows will be set aside and violated, whenever certain occasions recur?

There is every reason to expect that if the Act were repealed so far as regards these points, the directors would manage the Bank on sound principles. But if they did not, we think that every principle of sound reasoning would point to an improved constitution of the direction itself. Nothing can be more clear than that the long monopoly of the Bank was utterly opposed to all sound principles of political economy, and inflicted immense injury on the country. The pretensions of the directors were anomalous. They claimed to exercise a great function of State, and they claimed to be exempt from all interference as a private body. The directors are exclusively selected out of the commercial class, and, of course, their sympathies would naturally go with their own class, and in former times it is undoubtedly certain that they allowed such sympathies to have a predominating influence. Their *interests* as merchants were opposed to their *duty* as bankers; and formerly, we do not say corruptly, but yet,

undoubtedly, the latter gave way to the former. There is no reason whatever to suppose that such would be the case now-a-days, if these parts of the Act were repealed. But if such should be the case, the State would have every right to interfere. The Bank of England has become—unfortunately, in our opinion—an engine of the State; and if it should be proved that that class of the community to which hitherto its administration has been exclusively entrusted, should be unable or unwilling to conduct it properly, it would be the undoubted right of the State to devise such an improved organisation of its direction, as should place it in hands competent to conduct it on sound principles.



*Table shewing the state of the Bullion in the Bank at all Changes in the Rate of Discount since the Crisis of 1857 to the present time, and the Rate of Discount at Paris at the same time.*

Date.	Total Coin and Bullion in the Bank.	Discount.		Date.	Total Coin and Bullion in the Bank.	Discount.	
		London	Paris.			London	Paris.
1857.	£			1863.	£		
Oct. 8	10,109,943	6	6½	Jan. 15	14,102,169	4	5
" 12	9,524,478	7	7½	" 23	13,611,823	5	5
" 22	9,369,794	8	7½	Feb. 20	14,589,222	4	5
Nov. 5	8,497,780	9	7½	April 23	14,614,096	3½	5
" 9	7,170,508	10	10	" 30	15,348,492	3	4
Dec. 24	10,753,281	8	6	May 16	14,529,451	3½	3½
1858.				" 21	14,502,019	4	3½
Jan. 7	12,643,193	6	6	Nov. 2	13,799,428	5	5
" 14	13,347,107	5	6	" 9	13,460,765	6	7
" 28	15,398,724	4	6	Dec. 2, 3	13,048,475	7, 8	7
Feb. 4	15,793,696	3½	5	" 24	14,217,067	7	7
" 11	16,574,647	3	4½	1864.			
Dec. 9	18,921,171	2½	3	Jan. 20	12,974,109	8	7
1859.				Feb. 11	13,472,271	7	7
April 28	17,640,342	3½	3	" 25	14,034,222	6	7
May 5	17,205,475	4½	4	April 16	13,080,400	7	6
June 3	17,674,596	3½	4	May 2, 5	12,454,244	8, 9	7, 8
" 9	17,917,887	3	4	" 19	13,713,943	8	6
July 14	17,941,791	2½	3½	" 26	14,052,761	7	6
1860.				June 16	14,319,061	6	6
Jan. 10	16,224,129	3	3½	July 28	12,996,685	7	6
" 31	14,942,025	4	3½	Aug. 4	12,609,925	8	6
Mar. 29	15,271,701	4½	3½	Sept. 8	12,905,511	9	7
April 12	14,637,102	5	3½	Nov. 10	13,852,355	8	7
May 10	15,373,326	4½	3½	" 24	13,989,924	7	6
" 24	15,844,195	4	3½	Dec. 15	14,307,760	6	4½
Nov. 8	13,897,085	4½	3½	1865.			
" 13, 15	13,314,811	5, 6	4½	Jan. 10	14,097,390	5½	4½
" 29	13,870,376	5	4½	" 26	14,461,224	5	4½
Dec. 31	12,642,839	6	5½	Mar. 4	14,758,607	4½	3½
1861.				April 27	14,697,974	4	3½
Jan. 7	12,175,386	7	7	May 11	14,123,913	4½	3½
Feb. 14	11,571,332	8	7	" 25	15,838,491	4	3
Mar. 20	12,700,425	7	5	June. 8	16,045,669	3½	3
April 4	13,000,130	6	5	" 20	16,291,910	3	3
" 12	13,122,432	5	5	Aug. 5	14,223,390	4	3
May 16	12,382,446	6	5	Sept. 28	13,183,837	4½	4
Aug. 1	12,196,708	5	5	Oct. 2, 5		5, 6	4
" 15	12,647,658	4½	5	" 7	12,736,346	7	5
" 29	13,104,322	4	5	Nov. 23	14,628,948	6	4
Sept. 19	13,999,792	3½	5	Dec. 28	13,106,183	7	5
Nov. 7	14,210,774	3	6	1866.			
1862.				Jan. 6	12,887,829	8	5
Jan. 9	16,046,017	2½	5	Feb. 22	13,966,574	7	4
May 22	16,344,940	3	3½	Mar. 15	14,455,523	6	3½
July 10	17,055,537	2½	3½	May 3, 8	13,156,140	7, 8	4
" 27	18,448,443	2	3½	" 11, 12	12,323,805	9, 10	4
Oct. 3	16,919,137	3	3½	June 6	13,278,961	10	4



CHAPTER XIII.

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ON THE BUSINESS OF BANKING.



## CHAPTER XIII.

### ON THE BUSINESS OF BANKING.

SECTION I. ON THE NATURE OF BANKING — RELATION BETWEEN A BANKER AND HIS CUSTOMER—ON BANKING INSTRUMENTS OF CREDIT—ON BANKING INVESTMENTS.

SECTION II. ON THE CLEARING SYSTEM.

SECTION III. ON BILLS OF EXCHANGE AND PROMISSORY NOTES.

In the preceding chapters we have endeavoured to investigate fully the fundamental conceptions of Economics which are necessary to understand the nature of credit, or debts, the commodity in which bankers deal, and we have explained the general effects of banking in respect to Commerce and the Foreign Exchanges. We have also set forth the history of banking in this country, and the various monetary crises which have occurred during nearly a century.

We then examined certain theories of currency which have acquired considerable importance, and explained the somewhat anomalous organisation of the Bank of England, and the theories upon which it has been constructed and managed. We are now come to the more particular question of the practical details of banking business.

The difficulty in compressing the subject within a moderate compass consists in this, that credit, the commodity with which bankers are concerned, constitutes one of the most extensive and abstruse branches of Law and Bankruptcy.

To enumerate all the decisions which have been given, would fill a treatise considerably larger than the whole of this work. That it would be manifestly impossible to do, besides the fact of there being several excellent legal treatises on every branch of it.

The line that we have endeavoured to draw, is this:—There are certain legal doctrines and cases which are absolutely indispensable for a banker to be familiar with in his daily business, any one of which may occur in practice at any instant. There are other doctrines and cases which are only necessary to be known, when the banker is unhappily drawn into legal proceedings. In these cases he will be in the hands of, and be guided by, his solicitor and counsel.

We have endeavoured to give a selection of those doctrines and cases only, which are comprised under the former of these



divisions—those which are necessary to the daily business of banking, and to omit those in which a banker may find it necessary to have recourse to his solicitor.

In endeavouring, however, to draw this line, we are sure that every one conversant with the subject must be aware of the difficulty of selecting out of the great mass of cases and decisions, those only which are fundamental, and passing over those which are only of secondary importance.

In the first Section, accordingly, we have endeavoured to explain clearly the different relations which a banker may hold to his customers, and his legal rights, duties, and liabilities on each of them, and also the legal points affecting the instruments of credit in which the debts he creates are embodied. We then examine the different investments which bankers usually make.

In the second Section we have explained the general system of exchange, or clearing, by which the various banks in the country tend more and more to constitute one vast banking institution; and shewn what a marvellous economy of coin and Bank notes is effected by this means, and also shewn how it proves several of the prevalent doctrines regarding currency to be erroneous.

In the third Section we have given what appear to us to be the necessary fundamental doctrines regarding the instruments of credit, in which are embodied the debts which bankers purchase from their customers, namely bills of exchange and promissory notes.

## SECTION I.

### ON THE NATURE OF BANKING, AND THE RELATIONS BETWEEN A BANKER AND HIS CUSTOMER—ON BANKING INSTRUMENTS OF CREDIT—ON BANKING INVESTMENTS.

1. We have found, in a former chapter, that from the time when the word “banker” was first used, it meant a person who purchased specie by means of his credit, or promise to pay an equal sum on demand, or at some future time. In the business of the exchanges, those are called “banking operations,” which consist in the buying and selling of bills. A “Banker,” also buys other debts, such as bills of exchange, by creating fresh debts. Hence the business of a merchant is to buy and sell commodities with specie and debts; the essential business of a “banker” is to purchase specie and debts by creating other debts. A “banker” is, therefore, essentially a debt merchant, though he sometimes adds other species of monetary business to this.

2. In modern practice, a Banker may stand in *four* relations to his customer—1st. As the PURCHASER from him of specie, or specie and debts; 2ndly. As his AGENT, or TRUSTEE, or BAILEE, of his specie and valuable securities, *i. e.*, securities for money, and convertible securities; these are termed Banking securities: 3rdly. As the PAWNEE of the same: 4thly. As his WAREHOUSEMAN for plate, specie, jewels, deeds, &c., not being banking securities.

The duties, rights, and liabilities between a banker and his customer are separate and distinct in all these relations, and we must now endeavour to explain them.

*On the relation of a Banker to his Customer, as the  
PURCHASER from him of Specie, or Specie and Debts.*

3. The first of these cases, is the ordinary one where a customer opens an account with a banker, by means of paying in money to his account. In this case, the customer cedes the absolute property in the money, to the banker, and receives in exchange the right, or property, to demand an equal sum from the banker when he may require it. The transaction is, therefore, a sale, or an exchange of money, for a debt. The banker and his customer stand in the common law relation of debtor and creditor. It is also part of this relation that the customer or creditor may transfer this right, or property, called debt, to any one else he pleases, and this debt may circulate exactly in the same manner as money itself.

The Banker, therefore, has bought this money; he has acquired an entire property in it, and he may do what he pleases with it. He may apply it exclusively to his own private benefit, or purposes, in any way he pleases, and his customer has no legal ground of complaint against him. He has voluntarily parted with his money, and received in exchange for it the right to demand an equivalent sum again from his banker, and if, when he does do so, his banker is unfortunately unable to do so, he is only entitled to receive a proportion of the banker's property rateably with other creditors.

Therefore the common phrase, when a man says he has so much of "his money" at his banker's, is not quite correct. *He* has *no* money at his banker's; what he has is a right residing in his person to demand money, which is recorded in his banker's books.

If a customer makes his will bequeathing "all his ready money," "all his stock-in-trade," "all his debts," "all his moneys," the sum standing at his credit in his banker's books has been held by numerous decisions in equity to pass under these designations.

The relation between banker and customer being simply that of debtor and creditor, if a customer were to leave a balance in his banker's hands for more than six years without operating on his account, it would appear that the Statute of Limitations would take effect, and he might if he chose, refuse to pay it.

Whether a banker has any right to refuse payment to the person to whom a customer has transferred a cheque, while he has funds of his customer in his hands, and whether the transferee of the cheque has any right of action against the banker is a question of some nicety, and will be considered afterwards under *CHEQUE*.

The case we have been considering is the simplest between a banker and his customer, and in such a one the latter is said to have a *Drawing* or *Current Account* with his banker.

4. Trading customers, however, usually keep a different kind of an account with their banker. They sell their goods, and take a bill at 3 months for them. As this bill is inconvenient for trading purposes, they take it to their banker, and offer it to him for sale. If he thinks it a good debt, which will be paid at maturity, he buys it from his customer. He writes down the full sum of the bill to the credit of his customer, and at the same time charges him with the sum he agrees to receive as profit. When the profit is retained at the time of the advance, it is called *Discount*. The discount is, therefore, the difference between the *price* of the bill and its *amount*. When a banker buys a bill in this manner he is said to *discount* it.

When a banker discounts a bill for his customer it is a com-

plete sale of the debt. The banker first makes his customer *indorse* it, that is, write his name on the back of it. The effect of this is this, that if the principal debtor, or acceptor, does not pay the bill at maturity, the banker has the right to charge his customer with the amount of the bill, provided he gives him immediate notice of the fact of dishonor.

When a banker discounts a bill, the entire property in it passes to him, just as we have seen above, the entire property in the money paid in by his customers vests in him. He has the whole property and interest in it, as much as in any chattels he possesses. He may sell it again if he pleases, or *re-discount* it, as it is termed, and if he became bankrupt, the entire property in it would pass to his assignees.

It is of importance to observe this. In the loose language in which Economic subjects are usually treated, it is commonly said that when a banker discounts a bill for a customer, he makes him a *loan* on the security of the bill. This, however, is a complete misconception of the nature of the transaction; and it can easily be shewn to be so. If the banker merely made a *loan* to his customer on the security of the bill, it would be the *customer's* duty to repay the money at the time fixed, just as in all other loans it is the duty of the person receiving the money to repay it. But when a banker discounts a bill it is wholly different. He does not seek repayment of the money from his own customer, but he demands payment of the debt from the *acceptor* of the bill, and if it is duly paid, his customer never hears of or sees the bill again. It is only in the event of its non-payment by the acceptor that he comes back upon his customer. If he made a loan to his customer on the security of the bill, he would not only seek repayment from his customer, but give him the bill back again when he was repaid, whereas he never does so. In such a case the property in the bill would remain with the customer, and pass to his assignees in the case of his bankruptcy; whereas it does not do so, it is given to the banker, and the assignees of the customer have no right to it.

The transaction is, in reality, an exchange of debts. The banker buys a debt, payable at a future time, by creating a debt in his customer's favour, payable on demand.

It may seem to some to be mere logomachy to distinguish between a discount as a sale and as a loan on the security of a bill; it is, however, nothing of the kind; the two transactions are essentially distinct, and involve distinct legal consequences to all parties, of the most important nature, civil, as well as criminal.

In these cases, therefore, which are the simplest, the banker does not stand in any fiduciary relation to his customer. They are independent exchangers, or buyers and sellers, of specie and debts.

*On the relation of a Banker to his Customer, as his AGENT, or TRUSTEE, or BAILEE of SPECIE, and Banking Securities.*

5. Besides, however, the simplest and most ordinary relation between bankers and their customers, as exchangers of specie and debts, bankers do undertake trusts, and enter into fiduciary relations with their customers. They receive sums of money, which are specifically directed by their customers to be appropriated to some special purpose, as well as securities, and other valuable property, such as stock, shares, &c., to receive the dividends, &c., on behalf of their customers; they receive bills of exchange on behalf of their customers, and collect them for their customers, in exactly the same manner as they do for themselves, and are answerable to them for any loss incurred through any negligence in not complying with the known usages of commerce. Bills of exchange, stock, shares, Exchequer bills, &c., are called banking securities.

In such cases as this, the property in these valuable securities does not pass to the banker; he is the mere agent, trustee, or bailee of his customer, and he has to obey his specific instructions in each case, and if he appropriated them to his own use, it would be criminal. Moreover, in the event of his bankruptcy, the property in such things would, manifestly, not pass to his assignees.

The temptation to a banker to use for his own benefit, the valuable securities entrusted to his care, is so great in times of commercial pressure, that it has been enacted, 7 and 8 Geo. iv., c. 29, s. 49, 50, "And, for the punishment of agents entrusted with property, be it enacted, that if any money, or security for the payment of money, shall be entrusted to any banker, merchant, broker, attorney, or other agent, with any direction in writing, to apply such money, or any part thereof, or the proceeds, or any part of the proceeds, of such security, for any purpose specified in such direction, and he shall in violation of good faith, and contrary to the purpose so specified, in anywise convert to his own use, or benefit, such money, security, or proceeds, or any part thereof respectively, every such offender shall be guilty of a misdemeanour, and being convicted thereof, shall be liable, at the discretion of the Court, to be transported beyond the seas for any term not exceeding fourteen years, nor less than seven years; or suffer such other punishment by fine or imprisonment, or by both, as the Court shall award.

"And if any chattel or valuable security, or any power of attorney, for the sale or transfer of any share or interest in any public stock, or fund, whether of this kingdom, or of Great Britain, or of Ireland, or of any foreign State, or in any fund of any body corporate, company, or society, shall be entrusted to any banker, merchant, broker, attorney, or other agent, for safe



custody, or for any special purpose, without any authority to sell, negotiate, transfer, or pledge, and he shall in violation of good faith, and contrary to the object and purpose for which such chattel, security, or power of attorney shall have been entrusted to him, sell, negotiate, transfer, pledge, or in any manner convert to his own use or benefit, such chattel, or security, or the proceeds of the same, or any part thereof, or the share or interest in the stock or fund to which such power of attorney shall relate, or any part thereof," such offender shall be guilty of a misdemeanour, and liable to the same punishment as in the last Section.

Certain London bankers having failed in 1855, it was found that they had appropriated to their own use a large amount of foreign bonds deposited with them by a customer for them to receive the dividends on; they were indicted under Section 49, convicted, and sentenced to 14 years' transportation.

*On the Relation of the Banker to his Customer as PAWNEE  
of Banking Securities.*

6. In the first of the relations between the banker and his customer above described, the banker was the absolute purchaser of the specie and securities of his customer, so that he might do what he pleased with them; in the second he was merely his customer's agent, and it is highly penal for him to appropriate to his own use any of his customer's securities. A relation intermediate between these two frequently exists, in which securities are deposited by a customer with his banker; the absolute property in them remains with the customer: but he obtains a loan or advance of money from his banker on their security, which, when he pays off, the full property and possession of his securities reverts to himself. The banker thus becomes the PAWNEE of his customer's securities, and while he is so, he acquires certain rights over them, though not exactly a property in them, and it is out of such cases as these that the most difficult and abstruse questions between bankers and their customers arise.

It has always been the custom that if a banker makes an advance, or a loan, to a customer, on the security of bills, &c., deposited with him, he has the right to repledge, or sell so much of these securities as is necessary to satisfy his own claim. And this custom is expressly sanctioned in the last recited clause, which says that nothing in the clause shall restrain any banker "from selling, transferring, or otherwise disposing of, any securities or effects in his possession, upon which he shall have any lien, claim, or demand, entitling him by law so to do, unless such sale, transfer, or other disposal, shall extend to a greater number or part of such securities or effects than shall be requisite for satisfying such lien, claim, or demand."

This principle has always been held to apply when a banker makes a loan on the pledge of these securities. It is also held to apply where a customer, having an ordinary account with his banker, has overdrawn it, and become indebted to him: the banker has a lien or a right to retain all *banking* securities deposited with him by his customers.

But he has no lien against a customer for a balance of account upon valuable property, such as a chest of *plate*, deposited with him for safe custody, not in his capacity of *banker*.

But if a customer, being indebted to his banker on an overdrawn account, brings fresh securities to him, and directs him to appropriate them to some specific purpose, the banker has no lien upon them for his debt. He must either fulfil his express instructions, or return the securities to his customer.

Nor has he any lien upon securities which his customer may deposit with him merely in his character of trustee. Even though the customer may have fraudulently obtained an advance on them from the banker, the trust will override the lien.

But a banker's lien on securities which come into his hands without being appropriated to any particular purpose, or entrusted to him for safe custody, or the like, is so strong that it applies to bills or notes, payable to bearer, or Exchequer bills which pass by delivery, even though the customer were not the real owner of them, and had no right to pledge them.

7. Questions of great nicety frequently occur between bankers and their customers, and, in the event of the bankruptcy of either or both of them, their assignees, respecting the property in bills placed by customers in the hands of their bankers for various purposes.

It is a very common practice of customers to place in the hands of their bankers the bills they receive for the purpose of collection.

This is very convenient for the customer. By placing this bill in the hands of his banker he frees himself from all anxiety and trouble regarding its loss, or presentation for payment. The banker is bound, as his customer's agent, to present it for payment and carry the amount to his customer's credit as soon as it is paid. And if he fails to do so, and any loss occurs through his neglect of the usages of trade, he is liable to his customer.

For the sake of convenience, it is usual to note down the amount of such bills on the proper day, in the customer's account, in a column "short of," or before the column for cash. Hence these bills are said to be entered "short," and the banker is said to hold such bills "short."

This entry is a mere memorandum, to remind the banker that

he has such bills to collect for his customer, on a certain day. The sum is in no way placed to his customer's credit, and the bills so "held short" are the exclusive property of his customer, which he is entitled to demand back at any time previous to his bankruptcy.

As the banker has acquired no property in them, in the case of his bankruptcy, the customer is entitled to demand them back immediately.

But in the case of the customer's bankruptcy, the banker must not deliver up his short bills to him, as all his property has vested in his creditors.

The course of dealing between bankers and their customers in such cases often creates perplexity.

The point to be ascertained is, whether the relation between the banker and his customer, at the time of the bankruptcy, was principal and agent, or that of debtor and creditor. That is, whether the property in the bills can be ascertained to have passed from the customer to the banker.

In many banks, it is the custom to enter the amount of such bills in the cash column, and to permit customers to draw against the amount. But this is a matter of comity, and does not transfer the property in the bills to the banker. They are only held as collateral security for the advance, and are not discounted.

The bills cannot be held to have become the property of the banker, unless the customer has an immediate right of action against him for the full amount, less the discount; and the banker has acquired a right of action against all the parties to the bill.

Consequently, a banker could not negotiate such bills so long as his customer's account shewed a credit balance without them; and if there were a debit balance, then only so much as would cover the debt.

Such bills are, therefore, really held short, and a banker negotiating them would be indictable under 7 and 8 Geo. iv., c. 29, s. 49 and 50.

A banker's general lien over his customer's banking securities not specially appropriated, is controlled by the customer permitting him to discount certain special ones to reduce a debit balance.

If a customer remits bills to his banker, with orders to apply the proceeds to a specific purpose, the property in the bills remains in the remitter, until the purpose for which they were remitted is fulfilled.

8. London bankers not only have their own customers, but they act as agents and correspondents for country bankers. Therefore they are, in many cases, so far as regards country customers, the agents of an agent.

A country customer frequently requires his banker to perform some duty for him which can only be done by his London agent, and perhaps sometimes, what can only be done by that London agent employing a foreign agent. In these successive agencies, losses may happen quite innocently in the course of trade. But in all such cases the country banker is liable to his customer, because it was he who chose the agent who made the loss; or he chose the agent who chose the agent who made it. Therefore it was the country banker's conduct that led to the loss, and he must bear it, so far as regards his own customer, and then have recourse against his own agent.

The customer of a country banker deposited indorsed London bills with him to collect; and he remitted them to his London agent, who received and paid bills for him, and had an allowance for so doing. The London banker failed before the maturity of the bills; his assignees were held to be bound to pay over to the country banker the proceeds of the bills, subject to the lien of the London banker for any sum remaining due to him upon the contract. The London banker was only the agent for collecting and remitting the proceeds of the bills, and his lien was limited to that.

But the country banker is liable to his customer for the full amount of the bills, subject, of course, to the state of the account between them. The customer must not suffer from the default of an agent he did not appoint.

A London banker urged a country banker who was indebted to him to send him up any bills he could procure. The country banker got A to accept two bills for his accommodation, dated the 13th December, 1813, which became due on the 19th March and 19th April, 1814, respectively, and sent up these to his London banker "*for account.*" At the dates when the bills respectively matured the country banker had a considerable balance in his favour, and on several occasions after that. But he afterwards failed, being indebted to his London banker considerably more than the principal and interest of the bills. The London banker sued the acceptor of the bills and recovered their amount, the Court saying, "There was a period when the lien on the bills of the London bankers ceased to attach, and when the bills might have been redeemed; but they were not reclaimed, and, by allowing them to remain in the hands of the London bankers, their lien revested, when, upon fresh advances made, the balance turned in favour of the London bankers."

B indorsed and deposited, as a collateral security for his floating balance with his bankers, four bills accepted for his accommodation by A. B became bankrupt; and the banker proved for a debt greatly exceeding the amount of the bills; and in their proof, among other securities held by them, exhibited these four bills, and received a dividend of 2s. in the pound on the

amount of their proof. A afterwards paid the bills in full, and it was held that the banker was bound to refund to A the dividend of two shillings on the amount of the bills.

As an example of double agency, we may cite this case. A country customer remitted a bill, drawn by him on a person in Calcutta, to his banker, who undertook to collect it for him and credit him with the proceeds when paid. He sent it to his London banker, who remitted it to his correspondent A in Calcutta to get payment. A received the proceeds and immediately afterwards failed. The country banker, having advised his customer that the bill was paid, was held to have made himself liable to him for the amount, with recourse left to him to recover payment from his correspondent.

Hence, in all cases when a banker undertakes to get payment of a bill for any party, he is liable to him, if any loss occurs through him or his agents.

9. If a banker takes Goods as a security for an advance, he ought to satisfy himself that his customer is entitled to them; for, by common law, the real owner will be able to recover them or their value from him, if unlawfully pledged.

10. A banker sometimes takes a POLICY OF LIFE INSURANCE as a security for a debt. In such a case, he should give notice to the office of the assignment, as, in the event of his customer's bankruptcy, the policy would vest in his assignees.

It is a well-established principle, that a debt due to a trader, though assigned by him, is in his order and disposition in the event of his bankruptcy, even though the instrument creating the debt has been delivered over, unless notice of the assignment has been duly given.

He must also have actual possession of the policy. A memorandum of deposit of securities was given to a banker, stating that a policy of insurance on the life of the depositor was among them. The policy, however, was not delivered, and was in the possession of the depositor at the time of his bankruptcy. It was held that the policy passed to the assignees, and the banker ranked among the general creditors.

If a policy, however, be deposited by way of equitable mortgage, the *onus* lies upon the assignees of the bankrupt to prove that notice of assignment was not given to the office before the bankruptcy.

A trader deposited a policy of insurance with his banker to secure a floating balance. A memorandum was signed, and due notice given to the office. He then took a partner, and opened a fresh account in the name of the firm. The policy remained in the bank, and was treated as a security for the new account, without any new memorandum, or any new notice of assignment.



On the trader's bankruptcy, this was held to be a good security, because the prior notice made it impossible to deal with the policy without making inquiry.

As a rule, notice should be given to the officer representing the company, who might either be the chairman, the directors, or the secretary, according to the deed of constitution. But where the company had authorised their agents to receive notice, and agreed that notices to them should be as valid as if served on the company, it was held that where one of their agents had acted as attorney for the assignor and assignee, that was sufficient notice.

A customer, the director of an insurance company, assigned to his banker, by deed, a number of the shares of the company, with powers of redemption and sale. The deed was prepared by the company's solicitor, and notice given to the company, and an entry made in their ledger. The company refused to recognise the transfer, as not made in accordance with their deed of settlement, and did not remove the name of the assignor from their books, and the shares stood in his name when he became bankrupt. It was held that the notice was sufficient, and the policy did not go to the assignees.

In the case of an equitable mortgage, by the mere deposit of the policy, the assignees of a bankrupt cannot recover the policy itself at law, but if they claim the debt in time, and receive it from the company, they may give a valid discharge for it, and thus the banker would find his security gone.

In all cases, the banker holds any residue that may remain after his own debt is satisfied, as trustee for the assignees.

11. Policies of life insurance are most undesirable securities for a banker to hold, as he may become liable to pay the premium for a long series of years, and may thus make a loss. But, more undesirable still, if possible, are SHARES in public companies. To complete his right to them, he must have them transferred to himself, and thus become liable for calls, and, even worse, in the event of the failure of the company. A banker, therefore, should never make advances on shares, except of companies of a very high standing, for, instead of buying a security, he may very probably find he has bought a liability.

12. DOCK WARRANTS and BILLS OF LADING are negotiable instruments, and, being duly indorsed, the property in the goods they represent passes by the simple delivery of the instrument, so as to empower the holder to obtain possession of them.

13. A banker frequently takes a deposit of TITLE DEEDS, by way of equitable mortgage, to secure an advance. In all such cases he should have a written memorandum, distinctly stating

the purpose for which the deposit is made ; for it is laid down that, in doubtful cases, where there is no memorandum, the Court leans against considering the deposit as a security for antecedent debts.

The deposit must be made in such a manner as to be free from suspicion. A customer deposited a lease on the 16th of April, and a *fiat* in bankruptcy was issued on the 2nd May. It was held that the banker could not hold the lease. He must also have possession of the security to constitute an equitable mortgage ; an order to a third party to deposit a lease when executed is not sufficient. But an agreement to give a mortgage, and the delivery of the title deeds for the purpose of having the mortgage prepared, constitutes an equitable mortgage.

A banker took a deposit of a lease of premises from a trader, with a memorandum stating that he was to be equitable mortgagee of the lease, premises, and fixtures, and appurtenances, as security for a debt. The trader continued in possession of the premises till he failed, and the whole were sold under an order. It was held that the banker was entitled to the proceeds of the whole, and that the trade fixtures were not in the order and disposition of the bankrupt, and the costs of the petition were added.

A customer deposited with his banker the title deeds of certain steam mills, cottages, land, buildings, and machinery, which he possessed in fee simple, as a security to the banker for all moneys then owing to him by the depositor, or which should in future be advanced to him, together with banker's commission, and all other usual charges, and also all balances which should be due from the depositor on his banking account, with interest at the rate of 5 per cent. per annum. After the deposit the depositor erected a quantity of new machinery and buildings, all affixed to the freehold. The deposit was held to be an equitable mortgage of everything erected before or after the deposit, and to include fixtures removable as between landlord and tenant.

An equitable mortgagee by deposit is not, as such, in general, entitled to demand a legal mortgage to be made to him, unless he contracts that one shall be made.

A deposit of the title deeds to a house does not include the furniture ; hence, if it be intended to include that, it should be so stated in the memorandum of deposit, and a schedule of it given.

An equitable mortgage will hold good against a prior voluntary settlement, but not against a subsequent legal mortgage, if the legal mortgagee had no notice of the equitable mortgage ; and it lies upon the equitable mortgagee to prove that the former had such notice.

A memorandum of deposit, which states it to be made for the

purpose of securing any sums of money which may be advanced by the banker, does not prevent the security applying to past advances; and if a specific sum be mentioned, the amount may be increased by parole agreement. But this is not so in the case of a legal mortgage.

A banker, in consideration of an existing debt and further advances, obtained a deposit of title deeds of certain lands of which he was seised, together with a memorandum charging the lands with payment of the whole debt and interest. Other creditors subsequently received judgment against him, and sued out *elegits*, under which the sheriff delivered the land to them. The banker was found entitled to priority over the *elegits* and judgments. And such a perfected equitable mortgage would prevail, not only over judgment creditors, but over an extent at the suit of the Crown, unless the mortgagor was an accountant to the Crown.

An undorsed bill of exchange was, among others, deposited as a security, along with a warrant of attorney, executed to secure payment of them. In this case, notice was held to be necessary to give validity to the deposit, because the bill of exchange, not being indorsed, the banker had only an equitable right to have his security completed by the indorsement of the bill.

But where certain bills of exchange drawn by A and accepted by B, a bond for the payment of a sum of money given by B to A, given as security for the payment of the bill, were mortgaged by A to a trader, who deposited them with his banker as security for advances, it was held that no notice was required to be given to the obligor, because, as bills of exchange, when deposited, did not require notice to be given to the acceptor, so a bond given to secure their payment came under the same principle.

Although a banker takes a bond from his customer and a surety, for payment of all sums advanced, or to be advanced, he does not lose his common law right of suing his customer for the simple contract debt.

If a person gives a promissory note to a banker for the purpose of satisfying a liability, from which he was discharged in law, but in ignorance of the facts which constituted such a discharge, the banker cannot enforce payment of the note, although the drawer had the means of knowing the fact.

Jewels were deposited as a security for a debt existing at the time of the pledge. The customer increased his debt, and reclaimed the jewels, on paying off the first debt only. It was held that the banker had a lien on the jewels for the payment of the whole sum, but if there had been bond creditors, or a bankrupt, the bankers could only have held the pledge for the first sum, and must have proved under the *fiat* for the remainder.

A banker takes as security an assignment by way of mortgage of a ship and cargo while the ship is on her voyage. This operates in equity to assign, not only the cargo at the time of the pledge, but any future cargo the vessel may carry. And if notice be sent to the master of the vessel, and he deliver up the vessel and cargo, the equitable title of the banker is complete, and cannot be defeated by judgment creditors of the assignor.

But it is important to remember, that a mere equitable mortgage, not registered, will be postponed to a subsequent registered mortgage, even though the mortgagee had notice of the prior equitable mortgage.

A firm of two partners, customers of a banker, obtained an advance from him on a promissory note, having agreed to mortgage to him shares in certain ships, belonging to them, their freights, and the policies of insurance held by them on the shares. The mortgage deed was duly prepared, and executed by one partner, the other refused. At the time of the execution, one of the ships was lost, but this fact was unknown to the parties. Notice was given by the banker to the underwriters before any act of bankruptcy. The deed was held to be binding on the firm, though executed by one partner only, and to pass the insurance money, though not registered according to the Shipping Acts. The Court held that, in this case, the signature of the single partner bound the firm, because the firm had previously agreed to execute the contract.

A customer was allowed to overdraw his account to a certain amount; but beyond that he was to find security. He exceeded that amount; the banker pressed for payment of the whole or a part of the balance. The customer stated, in a letter, that the arrival of a ship would enable him to set his account right, and inclosed a policy of insurance on the cargo, indorsed by him to the banker. The banker applied for the bill of lading which was not deposited, but the customer said that he was in insolvent circumstances, and could not part with it in justice to his other creditors. It was held that the letter and indorsement of the policy, did not give the banker a lien on the cargo in preference to other creditors.

A customer deposited with a banker, by way of security for advances, a joint and several promissory note payable by himself and his surety, whereby they promised to pay on demand Pease and others, or order, and R. H. or order, £300 with interest. The customer paid the interest regularly. At one time he had a balance in his favour exceeding the note. After the note was deposited the firm changed. It was held by the Court that, the note being a continuing security, might be indorsed, as it was payable to order, notwithstanding the change in the firm: that, not being indorsed, the original partners, or the survivors of them, were the proper parties to sue: that the

note was not discharged though the customer had at one time since its deposit a balance in his favour (but if the surety had then called upon the banker at that time to discharge the note they would have been bound to do it): payment by the customer of the interest within six years took the note out of the Statute of Limitations as regarded the surety.

So, if a customer deposit title deeds with a firm of bankers to secure advances to be made to him, and a change takes place in the firm, if he goes on dealing with them as before, and leaves the security with them, he will be held to have tacitly recognized the new firm, and to deal with them on the same terms as with the old one. Nevertheless, it is always better, to prevent questions arising on these points, to take a new memorandum of deposit to the new firm.

If the assignment of a security be intended to cover a floating balance between banker and customer, care should be taken to state in the assignment, that it is for advances already made, and to be made in future, for, though the banker would have a general lien for his balance on his customer's security, yet, if the customer became bankrupt, his assignees have a right to any surplus above the sum stated to be secured, and the banker could only prove for the balance.

These seem to us to be the principal points relating to bankers as pawnees of securities of their customers. Their relations to third parties who give security on behalf of their customers will be considered afterwards.

*On the relation of a Banker to his Customer, as WAREHOUSEMAN of his plate, jewels, specie, deeds, &c.*

14. Besides receiving money and securities from their customers in the way of banking business, bankers also receive from their customers chests of plate, jewels, and specie, and deeds, for the sake of safe custody in their strong rooms. In this capacity they act simply as WAREHOUSEMEN for their customers, and no property of any description passes to them in the goods deposited; and they have no lien over them for balances due to them from their customers on account, because they do not receive these valuables in their character as bankers.

*On a Banker's LIEN on his Customer's Securities.*

15. A banker's general lien is part of the Law Merchant, and is judicially noticed as such.

A banker has a general lien over all securities deposited with him by his customer as a *banker*, for debts due to him by his customer, without any specific appropriation.

But a banker has no lien over securities placed in his hands for a special purpose. As, for instance, if Exchequer bills be handed to him in order that he may receive the interest on them,



and get them exchanged for fresh bills. So, if a customer requests his banker to procure for him a £1,000 bank post bill, and places notes in his hands for that special purpose, the banker has no right to retain or apply them to any other purpose, unless he expressly states that he receives them only subject to his lien.

In both these cases, by receiving the customer's securities, the banker undertakes to do what he is requested, and such an undertaking is quite inconsistent with the notion of a lien.

So a banker has no lien for an antecedent debt on securities left with him, upon his customer applying for a fresh advance, which was refused; and if, on a deposit of securities, they be specially appropriated to a debt then due, the banker has no lien on them for any excess that may afterwards occur on another account.

The customer of a Banking Company held a number of shares in the Company in his own right. He was also a trustee of a fund, a portion of which was invested in his name in the same Company's shares. But there was no distinguishing mark between the shares he held in these two capacities. The customer was indebted to the Company, and agreed to assign a certain number of the Company's shares to them as security, but no transfer was ever made. He then became bankrupt, not having sufficient shares at the time to satisfy the trust, and also to execute the assignment to the Company. It was held that the Company had no lien on any of the shares the customer held as trustee, the equity of the *cestuis qui trustent* prevailing over the equity of the Company. But the Company had an equitable lien over all the shares which the customer held in his own right, as against his assignees.

A Joint Stock Banking Company has no lien over the shares of one of their shareholders, who may be indebted to them as a customer, to prevent him selling and transferring the same before the accounts between them are settled, even though the deed of settlement provides that they have the right to object to a transfer of the shares; unless the deed expressly provides that the Company should have a lien on the shares of such of their shareholders as should be customers and indebted to them, and that no shares should be transferred without the consent of the directors.

In such a Company, where an abstract of these rules was indorsed on the certificate of each share, it was held that the lien of the bank prevailed against the right of the assignees.

A trust fund was kept at a bank in the names of the trustees. One of the *cestuis qui trustent* was indebted to the bank on an over-drawn account. As security for this, he agreed to assign to the bank his share of the trust fund, and he addressed a letter to one of the trustees, authorising and requesting him to

pay to his credit such sums as might be found to be due to him out of the trust fund. This was held to give the banker a lien upon that portion of the trust fund.

A banker held short bills for his customer, who drew in advance. The banker did not charge interest on the advance, but, selecting such of the bills as were nearest the amount, discounted these for his customer in the usual way, but without any special agreement for that purpose. This in no way invalidated the banker's general lien upon all other bills he held besides those he discounted.

A customer, entitled to one third part of freehold land in his own right, and to another third part as heir-at-law to his brother, deposited the title deeds with his banker as security for advances. The personal property of the brother, who was a trader, was sufficient to discharge his debts, and *his* third of the land became assets for the payment of his debts, by Statute then in force. It was held that the banker's lien prevailed over *both* thirds of the property, in preference to the claims of the creditors.

A banker has no lien on the balance of a partner on his separate account, for a debt due on the partnership account.

The rule is absolute that a banker has a general lien upon all paper securities placed in his hands by his customers, without being appropriated to any specific purpose, for any balance that may be due to him. But if he takes a security *payable at a future day*, his lien is gone. For taking the security payable at a distant day, is payment *pro tempore*, and an extinction of that debt; and no new debt arises until default is made in payment of the new security.

#### *The BANKRUPTCY of a Customer—SET-OFF and MUTUAL CREDIT.*

16. Directly a customer becomes bankrupt, he is commercially dead, and he has lost all power to deal with his property, which is gone to his creditors.

Consequently, a banker may *receive* money on a bankrupt customer's account, because he does so as trustee for the creditors; but he must not pay away any money to his customer's order, and if he does so, he will have to refund it to the creditors.

If security be proposed to be given to the banker for a debt, and if, after instructions be given to prepare the assignment, but before the execution of it, the customer becomes bankrupt, the banker loses the benefit of the assignment.

He, however, may retain any security he actually holds for any debt to which it is specially appropriated, but he is the trustee of the creditors for any excess.

If the assignees of a bankrupt open an account with a banker in their joint names, they are not partners, so that payment to

one is payment to all. He cannot pay one without the consent of the others. So, where a banker paid a cheque signed truly by one assignee, but the signature of the other was forged, he was held liable to pay again.

If a banker has notice that a customer has committed an act of bankruptcy, even though it be not the one on which the *fiat* is founded, and pay his cheques, he will have to refund the money, and will not be allowed to prove for the amount.

If a banker, knowing that a customer has committed an act of bankruptcy, take a guaranty from a surety, who is ignorant of the fact of the customer having committed this act of bankruptcy, to secure sums then due and to become due, from the customer, and the surety afterwards pay the sum without specifying to which portion of the debt the payment was to be appropriated, the payment will be applied to that part of the debt which was proveable under the *fiat*, and not that which was not so.

If a banker, after a customer has committed an act of bankruptcy, accept a bill for him, having in his hands a sum partially sufficient to meet the bill, and the remainder for his accommodation, the holder of the bill can only receive from the banker so much of the bill as was for the customer's accommodation, the remainder belongs to the assignees.

So, if a banker accept a bill for the accommodation of his customer, for the payment of which he lodges funds, after committing an act of bankruptcy, but before *fiat* is sued, and the bill, when due after the *fiat*, is paid by the banker, he must refund to the assignee.

17. *Set-off and Mutual Credit.* By the common law of England, if two persons were mutually indebted, and one brought an action against the other for payment of his debt, the other could not plead that the first was also indebted to him; he was required to pay his debt first, and then, if he pleased, he might bring an action to recover payment of his own debt.

The Courts of Equity, however, recognised the practice that when two parties were mutually indebted, the debt of one should be *set off*, or subtracted from the other, and the balance only should be held to be payable. The want of this practice in law was found, as commerce increased, to be productive of great injustice in the case of bankrupts. Persons who owed anything to bankrupts were obliged to pay their debts to them in full, and then they received only a dividend on what the bankrupt owed them.

The practice of *set-off* was allowed in the case of bankrupts by Statute 4 Anne, c. 17, and afterwards in the Insolvent Debtors' Act.

At last two general Statutes were passed, 2 Geo. II., c. 22, s. 13,

and 8 Geo. II., c. 24, s. 1, called the Statutes of Set-off, which gave a general right of set-off in the case of mutual debts; that is, in the case of ascertained money demands.

But, under these Statutes, the respective claims must be existing legal debts; hence a debt could not be set off against damages sought to be recovered in an action; as, if a banker had damaged his customer's credit by his conduct, a debt owed to him by his customer could not be set off against it. Nor can a debt barred by the Statute of Limitations be set off against an existing one. Nor by these Statutes could a debt, only to arise at a future time, as on a bill or note not yet due, be set off against an existing debt.

The debts, therefore, must be due and payable at the time of the action, and also at the time of plea pleaded, and also at the trial.

The debts also must be strictly mutual; hence, if a firm sue for a partnership debt, a debt due from some of the firm cannot be set off. If a firm be sued, they cannot set off debts due to some of them. One partner, however, may *settle* a debt to the partnership by setting off against it a debt due from himself.

The Statutes only permit set-off in the case of mutually existing legal debts. But the Bankrupt Act goes further, it allows the set-off of mutual *credit*, as well as of mutual debts; and mutual *credit* is more extensive than mutual *debt*.

There is mutual *credit*, though one of the debts constituting it be not due, as in the case of a bond, or bill, or note, payable at a future time.

Hence, if a banker is the indorsee of the bill of a bankrupt acceptor or indorser, and the acceptor or indorser holds an equivalent amount of the banker's notes, payable on demand, there is mutual credit, and the banker may set off one against the other.

A bill accepted for the accommodation of a bankrupt is within the mutual credit clause, and may, under the Bankrupt Act, be set off against a demand by the assignees for money had and received to *their* use after the bankruptcy.

If a banker, however, or other, commit a breach of trust, as if he receives bills or notes with orders to apply their proceeds to a particular purpose, and, instead of doing so, convert them to his own use, he could not plead set-off.

Mutual credit does not destroy a lien.

Under the Bankrupt Act, a set-off is available in all actions, whether for debt or damages.

Under the term *mutual credit*—the credit need not necessarily be given in money. Thus, if goods be deposited with the power and authority to convert them into money, that may be pleaded as set-off. Thus the mutual credit must be such as was intended to terminate in a debt. This is manifestly the same principle as applies to bills and notes not yet due.

Mutual credit must exist between the bankrupt and the other party; therefore, where the defendant promised to indorse a bill to the bankrupt, in consideration of his acceptance, it was held not to be mutual credit.

*Of Securities given by third parties to Bankers to secure advances to their Customers.*

18. We have now given what appears to us to be necessary to explain the relations between a banker and his customer, and securities given by the customer; we have now to consider the case where securities of all sorts are given by strangers to bankers on behalf of their customers, which are of considerable importance, and are much more strictly interpreted than securities given by the customer himself.

The general rule is this:—That if a person gives a guaranty to a banking firm to secure advances made, or to be made, to another firm as customers, if any change whatever take place in either firm, either from death, or the withdrawal of any partner, or the adoption of a new one, the guaranty then *ipso facto* ceases to operate as to any new transactions, but it holds good as to any which had commenced, though not been completed before the change, as, for instance, to bills accepted, discounted, or negotiated, before the change, but which did not become payable till after it.

This doctrine, which was established by numerous decisions, was enacted by 19 and 20 Vict., c. 97, s. 4:—

“No promise to answer for the debt, default, or miscarriage of another, made to a firm consisting of two or more persons, or to a single person trading under the name of a firm; and no promise to answer for the debt, default, or miscarriage of a firm consisting of two or more persons, or of a single person trading under the name of a firm, shall be binding on the person making such promise, in respect of anything done or omitted to be done, after a change shall have taken place in any one or more of the persons constituting the firm, or in the person trading under the name of a firm, unless the intention of the parties, that such promise shall continue to be binding, notwithstanding such change, shall appear, either by express stipulation, or by necessary implication from the nature of the firm, or otherwise.”

If it be the intention, therefore, that the guaranty should be a continuing security, notwithstanding any change in either or both of the firms, such a stipulation should be fully set forth in it.

If any change, therefore, whatever take place, either in the firm to whom or for whom the guaranty is given, it is instantly annulled. The same thing takes place if the banking firm to whom it is given does anything, however slight, to depart from or vary the contract, for there is, in fact, a new contract, to which the guarantor has never consented. If, however, what the banker



has done is merely in *excess* of the guaranty, and does not *vary* from it, or if it is merely taking an additional security, that does not vacate the guaranty. Sometimes it is a nice point to determine whether what the banker has done is a *variance* of the contract between him and the guarantor, or whether it is the taking of an *additional* security.

Difficulties on this point frequently arise when the banker gives time to the principal debtor.

If a joint and several *bond* be taken by way of security, time given by parole to the debtor is no answer at *law* by an obligor who is surety, whatever there may be in equity.

But if there be an absolute discharge to one or several joint obligors, all are discharged; or if the obligee releases one, and the other, in consideration of the forbearance, engages to pay the debt, such engagement has no effect, and the debt is extinguished.

If one surety executes a deed on the understanding that a second surety is to execute it jointly with him and the customer, and if the second surety does not execute it, and money is advanced to the customer while the first surety is in ignorance of the fact that the second intended co-obligant did not execute it, and the customer become bankrupt, the first surety will be discharged from all liability, and the bond given up to him to be cancelled.

A mere forbearance to sue the principal debtor will not discharge the sureties, it must be some contract binding in law. Thus, for instance, if a banker were to take a new bill from a debtor in substitution of the old one, that would discharge the indorsers, as taking the new one is a satisfaction and discharge of the old one. It would not be so, however, if the new one were taken as mere collateral, or additional, security.

W. Jones, who was an attorney, and the professional adviser of certain bankers, and kept an account with them, gave them the following guaranty:—

*“ Henry Bowers’ Mill Account.*

“ Please to open an account with, and honour the cheques of, Mr. H. Bowers, on ‘Mill Account,’ for whom I will be responsible.

“ W. JONES.

*“ Carmarthen, January 4, 1825.”*

The bankers, on receiving this guaranty opened an account with Bowers, and made advances to him till February, 1827, and then ceased the account. In February, 1828, they took Bowers’ acceptance at 3 months for the amount of the balance due to them, which was dishonoured at maturity. In 1832 they became bankrupts, and, in an action by their assignees against

Jones, it was held that the bankers, by taking Bowers' acceptance, had discharged the guarantor.

On the 14th February, 1850, a person gave a guaranty to a bank to secure the sum of £1,000 then due, or what might become due, from a customer, providing that if he, the guarantor, should give notice in writing to the bank determining the guaranty, he should not be liable for any sums advanced after that notice. The customer's debt having reached £1,300, he executed a warrant of attorney to confess judgment for £2,600, subject to defeasance on payment of the balance of £1,300, and that the warrant of attorney should in no way affect the guaranty. This was dated 19th March, 1851, and at the same time an agreement was made between the banker, guarantor, and customer, that the original guaranty should not be affected by the warrant of attorney, and that all sums received under it should be applied towards the reduction of the debt before the guarantor should be called upon; and that the bank should be bound to levy execution on receiving notice in writing from the guarantor. The warrant of attorney *was not filed* pursuant to Statute 12 & 13 Vic., c. 105., s. 136, but judgment on it was entered up on the 24th of March, 1851. On the 25th August, 1851, the guarantor duly required the bank to levy execution, which was done, and the debt to the bank was discharged. Soon after the customer became bankrupt, and his assignees brought an action to recover the sum levied under the execution by reason of the provisions of the Statute not having been complied with, and succeeded. The bank proved under the bankruptcy, and, having received a dividend, sued the guarantor for the balance, but it was held that the guarantor was discharged in consequence of the *laches* of the banker in not complying with the provisions of the Statute.

A customer, as security for an overdrawn account, gives his banker a joint note at twelve months, signed by himself and another, dated 14th April, 1813. In January, 1815, he compounded with his creditors for 10s. in the pound. The note had been given with the express understanding that the surety was not to be answerable for longer than the 12 months. He never had any application for payment before the composition. The banker had indorsed away the note, and in 1816 the indorsee demanded payment of the note. The surety took no notice of the application. Some months afterwards, the note having come back to the banker, he sued the customer, and the Court held he was not discharged.

A joint promissory note, at one month, by A and B was given to a banker, to secure an advance to A. After it became due, it was agreed between A and the banker, without the knowledge of B, that A should execute a warrant of attorney to another person, as trustee for the banker, to secure the amount of the

note, and further advances. It was held that this did not discharge B, as there was no time agreed to be given in it, and the note did not merge in the warrant of attorney, being between different parties. This was merely a case of additional collateral security.

In the case, however, of an Act of Parliament, the provisions of which are inconsistent with the allowance of a delay to sue a surety, if time be given to a principal, though not by contract, the surety will be absolved.

A guaranty will also be void if the banker suppress any material fact, either wilfully or by negligence, which the guarantor ought to have known, and which might have influenced his judgment as to becoming guarantor. And though, if the questions are asked, the banker is not bound to volunteer information as to his customer's account and manner of dealing, still, if the questions are asked, and the banker misrepresents the facts, the guaranty will be vitiated.

A bank agreed to advance £2,600 to A on the security of a mortgage, and a joint and several promissory note of A and a surety. At the time of signing this note A already owed the bank £800, and it was falsely stated in the recital in the mortgage deed, which was read over to the surety and A, that a policy of insurance already deposited with the bank for £1,500 to cover this debt, would be available as collateral security for the £2,600, as the £800 had been repaid. In fact, the £800 had not been paid, but it was agreed that it should be paid out of the £2,600. Although this misstatement did not prejudice the surety, it was held to vitiate the guaranty, and he was released.

Richard Cox was in co-partnership with the Morells as a banker, and in partnership with Davies to work a colliery. Cox and Davies being indebted to Cox and Morell, the latter agreed to make a further advance to them on condition that John Cox, the brother of Richard, became security to the amount £3,000. John agreed to execute a joint and several bond as surety, with Richard, to the Morells. John executed the bond, but Richard did not. Sometime afterwards Richard left the partnership, and it was held that John, the surety, was released from the bond in consequence of its non-execution by Richard, the principal debtor.

The two brothers also signed joint promissory notes to the bank of Cox and Morell, which were expressed to be made for value received by drafts at three months' date, to enable Richard to meet some bills. The advances, however, were made directly in *cash*, and not by drafts at three months. It was held in this case, too, that the surety was released, as the contract had been materially varied, and the rights of the creditor against the principal debtor were materially different from that expressed in the notes.

On the 1st January, 1838, a surety gave a joint note with a customer for £500, payable to the banker on demand, with interest. The note was not entered in his books. On the 12th November, 1841, the customer had a debit balance of about £96. On the 9th of December, 1841, the banker gave credit to his customer for the £500 as of the date of the 12th November. In 1843 the customer became bankrupt, owing the bank more than £500. It was held that these proceedings released the surety, as not being in accordance with the intentions of the parties. The note was given to cover a floating balance, but instead of that, the surety was at once made liable for the whole £500.

A and B entered into a joint bond to a banking Company to secure advances to B. Some time afterwards, the Company released B, their customer, by deed from all causes of action, suits, debts, sum and sums of money, claims and demands whatsoever at law and in equity. The deed provided that nothing contained in it should prevent them suing any one who might be jointly bound with their customer. The deed was made without the knowledge of A. It was held that it did not discharge A, and that it did not operate as a release, but as a covenant not to sue, and that A was liable for breaches committed before the execution of it.

A banking company agreed, upon receiving a guaranty from a person, to advance a certain sum, to enable a trader to compound with his creditors, and carry on his business. At the same time, being themselves creditors of the trader, they secretly agreed with him and others to secure themselves payment of their own debt in full. The guaranty was set aside in equity as a fraud upon the guarantor and the creditors.

Hence, when a banker takes a guaranty from a third person on behalf of a customer, he must take great care that no material fact be concealed from the guarantor, and that the course of dealing between him and his customer follows the guaranty strictly to the very letter. If a banker is asked to assent to a composition deed by his customer, on behalf of his creditors, he must first obtain the assent of that customer's guarantors, or they will be discharged.

Sometimes a trust will override a banker's right to the security, though the banker had no knowledge of the trust.

An executor and trustee under a will lends the trust money to a third party, taking his note payable to himself only. Becoming embarrassed, he indorses the note over to his banker, who was also banker to the maker of the note, as security for advances. The banker knew nothing of the trust, but he was not allowed to retain the note, or its proceeds, against the *cestui qui trust* of the executor, because the latter had only an equitable title to the note, and he could not convey more than he possessed himself to the banker.



If the above note had been given by the maker for money lent by the executor in his own right, and the maker had afterwards become a creditor of the executor for goods sold to him in his own right, the set-off of the maker would have prevailed over the banker's lien on the note.

If a surety concur in and ratify an arrangement between a banker and his principal debtor, he will not be discharged by such arrangement.

In guaranties by simple contract, made before the 29th July, 1856, it is necessary that the consideration for the guaranty appear on the face of it, or must be capable of being discovered from the words, by the aid of the circumstances in which it was given.

Since that date, however, by Statute 19 and 20 Viet., c. 97, s. 3, this is no longer necessary. Such an undertaking, even by simple contract, is sufficient if it be "in writing, and signed by the party to be charged therewith, or some other person by him thereunto lawfully authorised."

Difficulties about guaranties sometimes arise about the stamp. It is very common to give guaranties in the form of a promissory note, signed by the parties, with a memorandum indorsed on it by the same parties, stating the purpose for which it is given, namely, as a security to cover floating advances to a customer, such a document is *an agreement*, and, if above £20, requires an agreement stamp, and if not duly stamped cannot be received in evidence.

A promissory note containing in the body of it a memorandum of the deposit of title deeds as collateral security, requires a mortgage stamp.

If a joint promissory note, signed simply by the customer and his sureties, payable on demand, for a given sum, be given to the banker, without any memorandum, it is very doubtful whether time given to the customer would discharge the sureties: there being no specific agreement with the banker to take it from the others simply as sureties; it is better, in all cases, to let the sureties know that they will be treated as principals, if necessary.

The customer of a bank got B to join him in a promissory note to secure his balance. When it became due there was a balance against the customer, but a few days afterwards the sum at his credit greatly exceeded the note. In an action against B it was maintained that the note had been paid, or that as B signed only as surety, the time given to the customer discharged the surety. The Court, however, held that where two persons give a joint and several promissory note for the debt of one, it is necessary, in order that the other may have the rights of a surety as against the creditor, that the creditor should agree to receive him in that capacity only. That mere forbearance to sue is not "giving time," and that the banker was not bound to



appropriate the balance on the customer's account to the payment of the note so as to discharge B from his liability.

A banker took a joint and several promissory note from a customer and surety, to secure advances. The customer paid into his account sums exceeding the note, but drew out more, and became bankrupt. The surety was held liable, and he could not insist that the payments should be appropriated in discharge of the note.

A joint and several covenant was entered into by a principal and his surety, that the principal should repay a sum advanced, by three instalments, with interest, on certain days. The first instalment was paid, and then the surety became bankrupt. It was held that, under 12 and 13 Viet., c. 106, s. 178, the creditor might prove for the two unpaid instalments, as a contingent liability.

*On the Appropriation of Payments. .*

19. A customer keeps a running account with a banking partnership. In the course of it one partner dies, but the customer goes on dealing with it in the usual way. The bankers become bankrupt. It was held that the whole was one account, and that the earlier payments were to be set off against the earlier receipts, in the absence of any intimation from the customer that he meant to depart from the usual mode of dealing.

If a customer keeps several distinct accounts with a banker, and is indebted to him, he has the right to say to which of them any money he pays in shall be appropriated. But if he makes a payment generally, the banker has a right to appropriate it to which he pleases, and may take reasonable time to determine which.

A banker made large advances to a customer, partly on legal and partly on illegal transactions. The customer made payments to account generally, without any specific appropriation. It was held that the payments were to be applied to the extinction of the earlier items of the account, and to the legal, and not to the illegal, ones.

*Acts done by one of several Partners.*

20. If one partner in a bank deals in a fraudulent way with the securities of a customer, the firm will be liable. So also, if one member of a banking firm collude with a member of a trading firm in transactions connected with the business of the bank, the banking firm will be made liable in damages to the trading firm.

One of several partners in a banking firm drew, in his own name, a bill upon a third party, who accepted it on the condition that the drawer should provide for it when due. This was held to bind the firm, and they were not allowed to sue the acceptor, because the partner had not fulfilled the condition.

Two navy agents in partnership purchased an annuity for a customer. One of them, without the knowledge of the other, guaranteed the punctual payment of the annuity. This was held to bind both.

One partner, however, cannot bind the partnership by deed without having express authority.

A banking firm sold Exchequer bills improperly, and applied the proceeds to the use of the house. Some months afterwards one of the firm dies. It was held that this was a partnership debt, and that the estate of the deceased partner was liable.

So, where stock was sold in breach of trust, and the proceeds applied to the use of the house, it was held that the creditors were entitled to proceed against the estate of a deceased partner, either for a debt or to have the stock replaced, and the same would be the case if the stock stood in the name of one partner only.

But if the act is not within the scope of banking business, the other partners will not be liable.

One of a banking firm advised a lady, a customer, to dispose of certain bonds, and place the proceeds on better security, and suggested that the money should be lent to his son. She accordingly gave the partners a cheque on the bank for the amount, and received in return the partner's promissory note and guaranty for repayment. On the partner absconding, and the security failing, it was held that the other partners were not liable, as it was not a banking transaction.

Where, however, the person who committed a fraud, somewhat similar to the above, was the acting manager of the bank, and he made the customer believe he was acting for the bank, the bank was held liable.

### *Change of Firm.*

21. If any change take place in the firm, either by death, withdrawal, or the addition of a new partner, there is, in fact, a new commencement of business, and the accounts between the old firm and their customers should be settled and transferred to the new firm. The retiring partner ought to obtain a release from all debts existing at the time of his retirement, otherwise he may continue liable for them.

A customer may go on dealing with the new firm without taking particular notice of the change. This will not constitute, by itself, sufficient evidence of his assent to transfer the credit to the new firm, to the release and discharge of the old. And the new house will be bound, in default of special directions, to appropriate payments in liquidation of the balances due to the old firm.

Very much the same principles hold good with respect to changes in firms which are customers of the banker. A new

partner will not be liable for any transaction that commenced before he came in, but he will for all transactions that commenced after that.

One of a firm retiring, the remaining partners assume the whole of the partnership liabilities on receiving all the partnership assets. Their bankers sign a memorandum agreeing to this arrangement, and the retiring partner is released. The banker cannot afterwards make this partner a bankrupt in respect of that debt.

Three persons not in partnership join in a single speculation, each to contribute one-third part of the expenses. One of them paid his proportion when called upon. The bankers of a second were the bankers of the speculation, and advanced money to him on his own credit, without the knowledge of the first. These moneys were, in fact, advanced to pay bills accepted by the second in furtherance of the adventure. It was held that the first was not liable to the bankers.

In all similar cases bankers must ascertain that the money is advanced with the knowledge and consent of all, otherwise they cannot recover from all.

A firm of several partners had an overdrawn account with their bankers, for which they deposited title deeds of real estate belonging to the firm. By the conditions of the partnership one of them had the power, in case of his death during the continuance of the partnership, to bequeath a part of his share to one of his sons. He died while his sons were minors, and leaving this part to such of his sons as his wife should appoint, and making her and two of the other partners executors. The account was continued without alteration, and the deceased partner's capital was not taken out of the partnership, which afterwards became bankrupt. The amount paid in, after the death of the partner, and before the bankruptcy, exceeded the sum due from the partnership at the time of the decease. It was held that this discharged the lien of the bankers on the estate of the firm, and extinguished their claim against the deceased partner's estate. The effect was that a new account had been opened at the death of the partner, and the new firm had paid and discharged the debts due from the old one.

A firm of two partners became largely indebted to their bankers. One of them dies, and the other continues business under the name of the old firm, and indorses several bills to the bankers in the name of the firm. He then became bankrupt. The bankers were allowed to prove on his separate estate, notwithstanding it appeared that the bills were indorsed in respect of a partnership transaction.

One of many co-adventurers in a mining concern, who acted as manager of it, opened an account with a banker in the name of the adventurers. It was held that he had no authority to bind

the others on an overdrawn account even for the purposes of the mine, and that, if the bankers give him credit, they have no remedy against the others.

One of two partners opens an account in his own name. The banker may prove that he was in reality the agent of the partnership, and that it was a partnership account.

Two partners, A and B, had a joint account with a bank, B had also a separate account. The partnership account being greatly overdrawn, B died, and A become bankrupt. B's private account had a balance in his favour. It was held that they must give up to B's executors the balance on his private account, and they might proceed against his separate estate for the partnership debt.

If a firm have a balance in the hands of their bankers at the death of one of the partners, it is not the property of the survivor, or the survivors jointly, but of the survivors and the representatives of the deceased partner. Therefore, where the survivor of a partnership drew out a sum of money and placed it in the hands of trustees to carry out a partnership arrangement already agreed to, and became bankrupt while the money was in the hands of the trustees, it was held to be part of the joint estate and not the separate estate of the survivor.

### *On Banking Instruments of Credit.*

22. A banker deals with his customers by means of credit, that is, he purchases money, or money and securities, by means of creating debts. These debts are expressed in different forms, such as Bank Notes, Deposits and Cheques, Deposit Receipts and Bankers' Drafts, Circular Notes, and Letters of Credit.

It will greatly conduce to understand clearly certain peculiarities of these instruments of credit, to remember that, by the Common Law of England, a debt is not assignable, so as to enable the assignee to bring an action in his own name against the debtor. Debts, however, became assignable in certain forms by the custom of merchants, which was adopted by the Common Law, and subsequently the transfer of debts in certain forms was legalized by Statute. The transfer of debts was therefore governed entirely by the Law Merchant and certain Statutes. The Law Merchant prevailed over and was adopted by the Common Law, but it cannot prevail against a distinct Statute.

The transfer of a debt in the form of a bill of exchange, that is, in the form of an *order* from the creditor to the debtor to pay the debt, was the first that was adopted among merchants, and for a long time it was strictly confined to that form. Gerard Malynes, writing in 1622, seeing how useful traders in Holland found it to have debts recorded in the form of *promises* to pay by the debtor, which passed like bills of exchange, wished to see it introduced into England, but the Common Law prevented it.

But about 1645 the goldsmiths began to receive money on deposit, and, in exchange for these, to suit the convenience of their customers, they gave their promissory notes payable to bearer on demand. So that those who placed money with them might have their receipts as transferable as money itself. They also began to discount bills of exchange, which they did in the same manner. Instead of giving cash for them, they gave only their promissory notes payable to bearer on demand. By this means they found that they could keep in circulation an amount of their promissory notes far exceeding the quantity of cash they kept at home.

Thus the practice of issuing promissory notes payable to bearer on demand grew up, quite unrecognized by, and contrary to, the Common Law; and at the time the Bank of England was founded the London bankers had very large amounts of such notes in circulation. They were found to be so convenient, that the Act founding the Bank authorized it to issue such bills of credit, as they were called, and that they might by indorsement be freely assigned to any person who should voluntarily accept them, and so by such assignees *toties quoties*, by indorsement thereon, and all such assignees might sue thereon in their own names. This Statute, however, only applied to Bank of England notes, and did not affect the notes issued by private bankers.

In 1701 and 1703, it was held by the Court of King's Bench, that promissory notes were not transferable, and that no action could be maintained, even by the payee on the instrument, but that it was only evidence of a debt. Accordingly, the Statute 1704, c. 8, was passed, declaring that all such notes might be made transferable by indorsement, in the same manner as inland bills of exchange.

It is observable that the law then only permitted the transfer of bank notes by indorsement, which was then necessary to transfer the property in a bill of exchange.

With respect to Bank notes, however, the custom of indorsement soon fell into disuse, and it became usual to transfer them by mere delivery. And the same rule now applies to all instruments of credit, after they have become payable to bearer. The indorsement is not necessary to transfer the *property*, but only to preserve the *liability* of the indorsee, in case the bill or note is not paid.

And the general rule now is, that if any instrument of credit whatever, payable to bearer, be taken in exchange for goods, merchandize, money, or other instrument of credit, at the time, without indorsement, it is a complete sale and purchase of it with all risks by the transferee, and he has no remedy if it be not paid.

Except only in the case of fraud, as if the transferor knew at



the time that the Bank had stopped payment, and the transferee did not.

Moreover, though the transferor does not guarantee the solvency of the banker, he does warrant the genuineness of the instrument. So that, if the notes turn out to be forged, he will be liable.

If the bank note, however, be given in payment of an antecedent debt, the note is not to be considered as sold; if, therefore, it be presented in due time, and the banker is found to have stopped payment, and the note not paid, and due notice of the dishonor be given to the transferor, the transferee may recover on the original debt.

Formerly Bank of England notes differed in no way from other bank notes, but by Statute 1833, c. 98, s. 5, they are declared to be legal tender for all sums above £5, except at the Bank itself, and its branches, so long as the Bank pays its notes in gold on demand.

Up to about 1772, all bankers, both in London and the country, issued bank notes; in fact, they were the only form of a banker's credit, though in the country it was very common for them to be made payable some days after demand, or sight. But about the above date, London bankers gave up issuing notes, and simply gave their customers credit in their books, called DEPOSITS, which gave rise to a new instrument of credit, called CHEQUES.

By Statute 1826, c. 6, all bankers were forbidden to issue notes or bills under £5, and any person who issued or negotiated any negotiable instrument of credit on which less than £5 remained unpaid, was liable to a penalty of £20, except only in the case of drawing a cheque on his banker for his own use.

By Statute 1844, c. 32, s. 10, all persons were forbidden to make and issue bank notes in any part of the Kingdom, except those who were lawfully doing so as bankers, on the 6th day of May, 1844.

S. 11 says:—"And be it enacted, that from and after the passing of this Act, it shall not be lawful for any banker to *draw, accept, make, or issue*, in England or Wales, *any bill of exchange or promissory note, or engagement for the payment of money, payable to bearer on demand*, or to borrow, owe, or take up, in England or Wales, any sum or sums of money, on the bills or notes of such banker payable to bearer on demand, save and except those who were carrying on the business of bankers on the 6th of May, might continue to issue their notes under certain conditions." It was also enacted, that if any banker in any part of the kingdom, entitled to issue notes, should, for any reason whatever, discontinue such issue, it should not be lawful for him to resume it.

By s. 26 it was enacted, that after the passing of the Act, any

banking company, though exceeding six in number, carrying on the business of banking in London, or within 65 miles thereof, might draw, accept, or indorse bills of exchange, not being payable to bearer on demand—which had been prohibited by the Act, Statute 1833, c. 98.

A bank note, made payable at a particular place, must, like other promissory notes so made, be presented at that place, even though the makers be insolvent, and the place closed.

A country banker cannot insist on paying his own notes in anything but legal coin, or in Bank of England notes, as long as they are legal tender. But an action would lie against him, if he refused to pay, except in other country bank notes.

If one person asks another, for his convenience, to give him change for a country bank note, and it turns out that the banker has stopped and the note is worthless, he will be entitled to have his money back on giving due notice.

So, if a person pays in notes to his account at his banker's, who receives and gives him credit for them; if the note turns out to be worthless, the customer must take it back again, if due notice be given.

If bank notes be lost or destroyed, the holder of them may, by Statute 17 and 18 Vic., c. 125, s. 87, enforce payment of them, on giving an indemnity to the satisfaction of the court, or judge, or a master, against the claims of any other person upon them.

If bank notes are lost, the finder cannot retain them against the true owner, or compel payment from the banker; but if he pass them away for value, provided the transferee took them innocently, he may retain them, and enforce payment of them.

Formerly it was held that the transferee of a bank note was bound to exercise caution in taking it, and if he did not, he could not recover if it had been stolen; but this doctrine has been quite overruled now, and it is held now that he is entitled to recover on it, if he took it in the way of business, and gave value for it, even though he may have taken it negligently, if he did not actually know at the time it was stolen.

### *On Cheques.*

23. About the year 1772, as we have said, London bankers discontinued the issue of bank notes, and, instead of that, on their customers paying in money to their accounts, they simply gave them credit for the amount in their books; so, also, when they discounted bills for their customers, they wrote down the amount to their credit in their books.

These *credits* standing in bankers' books, from whatever source arising, are called *Deposits*.

Hence, a *Deposit*, in banking language, always means a *credit* created in a banker's books in exchange for money, or securities for money.

We have already pointed out in a previous chapter, the common error of supposing that a deposit means the thing deposited.

In order to facilitate payments, the bankers gave their customers books, containing a number of blank drafts, payable to some person or bearer on demand, which they might fill up in favour of any one they pleased, and the bankers undertook to pay these drafts to any one who presented them, provided they had funds of their customer in their hands.

These drafts are called CHEQUES.

As cheques were meant as a substitute for bank notes, the bankers made them as like bank notes as possible, they were, therefore, always made payable to *bearer on demand*, like notes. They were, in form, therefore, bills of exchange, payable to bearer on demand.

By the Law Merchant, no person could be made liable on a bill of exchange before he had consented to it, and which was signified by his accepting it.

It would greatly have impeded the negociability of a cheque if the transferee had been obliged to go to the banker to obtain his acceptance of it, before he became liable to pay it, consequently, it was the custom of bankers *that the possession of the customer's funds was equivalent to acceptance*. Consequently, if a banker has funds of his customer in his hands, and has had them long enough for his clerks to have notice of the fact, he is *bound* to pay his customer's cheques without notice and *without acceptance*. And, if he neglect or refuse to do so, he is liable to an action—at *whose* suit, we shall have to consider afterwards.

A cheque is, in its general form, a bill of exchange, and, consequently, when stamp duties were, for the first time, imposed on bills and notes, by the 22nd Geo. III., c. 33, it would have naturally required a stamp as much as any other bill. However, as it might have been very prejudicial to the business of banking if persons were obliged to pay a tax every time they wanted to make a payment, cheques were exempted from any stamp duty, provided they strictly complied with certain conditions. These were—

1. That they be an order for the payment of money, and not bills or notes.
2. That they be made payable to bearer on demand.
3. That they be drawn upon a banker, or upon persons acting as bankers, who shall reside, or transact the business of banking, within fifteen miles of the place where such cheques are issued.
4. That the place where they are issued shall be truly stated upon them.
5. That they be issued the day, or the day after the day, they bear date.

It was absolutely requisite that every instrument purporting to be a cheque, should strictly comply with all these conditions, because, if it did not, it immediately became an unstamped bill of exchange; and every person issuing an instrument purporting to be a cheque, and not strictly complying with all these conditions, subjected himself to a penalty of £100; every person knowingly taking it to £20, and the banker knowingly paying it to £100, and he is not allowed to charge it against the person by whom, or for whom it is drawn, or against any one claiming under them respectively.

The exemption of cheques from all stamp duty continued till the 24th of May, 1858, when, by the Statute 21 and 22 Viet., c. 20, s. 1, all drafts, or orders for the payment of money on demand, were made liable to a stamp duty of one penny, and by 23 and 24 Viet., c. 111, s. 18, bankers into whose hands such drafts or orders may come unstamped, may affix a stamp to them, and then cancel it.

By this latter Statute, the restriction as to issuing it within 15 miles of the place of business of the bankers is done away with.

Since this Act bankers have adopted a new form of cheque. The exemption in the previous Stamp Acts only applied to cheques drawn payable to *bearer* on demand. The new Act applies to all cheques to pay money on demand. Consequently, cheques may now be made payable to A B, *or order*, on demand. This confers additional security on them, for, unless they are indorsed, they are not negotiable, and this insures their not being negotiated until they have actually reached the payee's hands, and been indorsed by him.

It may be doubted, however, whether a cheque may be *post-dated*, for the Act only applies to cheques payable on demand, and a post-dated cheque is not *payable on demand* when it is issued. Consequently, it is in reality an unstamped bill, and the negotiator of such a document would probably be liable for the evasion of the stamp duties. It has been held, however, that a post-dated cheque, payable *to order* on demand, is a valid instrument, which may be sued upon, though it has not been decided what penalty the utterers of it are liable to. A post-dated cheque payable *to bearer* on demand is void.

Formerly the same penalties attached to putting a cheque under £5 into circulation, as issuing notes under £5; but these have all been repealed, and now a cheque may be drawn for any amount, however small.

It is usual in cheques to write the sum to be paid at full length in the body of the cheque, and to state the sum in figures in the margin. If the two sums differ, the banker ought to pay the sum in the body of the cheque, as the sum in the margin is a mere memorandum.

A cheque must be signed by the drawer, or by some one



authorized by him to do so. But the body of the cheque need not be written by him. And a banker is bound to know his customer's handwriting, and to distinguish between his and any other person's. Consequently, if he pays any forged cheques, the loss will fall upon him.

The same holds good if the cheque be written in the customer's handwriting. A banker must be able to distinguish it, so as to be enabled to tell whether a fraudulent alteration has been made in the sum payable, which is forgery.

It has been held, however, in some cases, when the body of the cheque was not in the handwriting of the drawer, that the fraud had been invited by the conduct of the person who filled it up. Thus, where a customer, on leaving home, left several cheques with his wife, signed by himself, for her to fill up as she might require them, she filled up one with the words *fifty-two pounds two shillings*, beginning the word fifty with a small letter in the middle of a line. The figures 52 : 2 were also placed at some distance to the right of the printed £. She gave the cheque to her husband's clerk to get cashed. He filled up the vacant space in the body of the cheque with *three hundred*, and put 3 before the 52. Thus making it apparently a cheque for £352 2s. The banker, not detecting the alteration, paid it. It was held that the improper mode of filling up the cheque invited the forgery, and that the loss fell on the customer. Here the banker could not be expected to know the writing of his customer's wife. But if the whole had been written by the customer, the banker would have been liable.

The same rule holds with regard to cheques as to other negotiable instruments of credit. If the payee or indorsee of a cheque payable to bearer lose it, and it be found by some one, the finder cannot retain it against the owner, or enforce payment of it; but if he pass it away to an innocent holder for value, he may retain it, and enforce payment of it either from the banker or from the drawer, if the latter has stopped payment of it.

A banker is bound to pay his customer's cheque if he has had funds in his hands a sufficient time for his clerks to have notice of the fact. What is a sufficient time has not been defined. In one case two hours was held to be more than sufficient. A customer paid in money at one o'clock more than sufficient to cover a cheque which was presented at three o'clock, and dishonored. The jury found a verdict against the banker with nominal damages. Sufficient time would appear to be that which is requisite for the payment to be entered in the ledger.

Refusing a man's cheque is a slur upon his credit, and, in some cases, may have very serious consequences to him. Now, in the hurry of business, a mistake will sometimes occur, especially if customers keep very small balances, and draw against them very



soon after they have paid sums into their account. Considering the enormous multitude of transactions that take place by means of cheques, and the number of times that such unfortunate accidents have happened, it might have been thought that the legal effects of such an accident would have been definitely settled. But this is not the case. In the case of *Rolin and another v. Steward P. O.*, the plaintiffs were merchants and ship-owners, carrying on business at Lynn, and accepted a bill of exchange for £48, payable at the London and Westminster Bank, Lothbury, the London agents of the country bank, of which they gave them information before hand. Moreover, the country bank had dishonored three cheques of the plaintiffs, having at the time sufficient funds to meet them. The case was tried at Norwich, before Lord Campbell. No evidence was given to prove the special damage alleged, and Lord Campbell directed the jury to give the plaintiffs, not nominal, nor extravagant, but reasonable and temperate, damages. The jury (a common one) gave £500 damages. A rule *nisi* was obtained for a new trial, on the ground of misdirection and excessive damages; but the rest of the court unanimously upheld the ruling of the Lord Chief Justice, and a new trial was refused. All the judges held, that refusing a trader's cheque wrongfully was an act so damaging to his credit, that he was entitled to substantial damages, even though none were proved. Williams, J., said, that it was "on the same principle as that on which it is held, that to impute insolvency to a trader, is actionable, without proof of special damage. If the law were not so, this absurdity would follow. A trader might bring his action against a man for saying of him, that his cheques had been dishonored, and the action would be successfully defended by the banker proving the truth of the slander; and yet the trader would have no substantial remedy against the banker, who had dishonored his cheques, and enabled the defendant to defeat the action."

In another case, however, at *nisi prius*, in which the author was counsel for the bank, Lord Chief Justice Jervis laid down a very different doctrine. He said that this question had been recently much discussed among the judges, and that the rule they had agreed to was that in such cases, special damages must be laid and proved. The plaintiff's counsel tendered a bill of exceptions to this ruling, but the bank, having gained the verdict, the case never went any further.

If a banker wrongfully dishonor his customer's cheque an action lies against him at the suit of the customer, whose credit he injures, and he will recover damages proportional to the injury.

And if, in consequence of this wrongful dishonor, his customer becomes bankrupt, an action will lie against the banker at the suit of the assignees of the bankrupt.

But whether an action-at-law will lie against a banker at the suit of the *holder*, or *lawful owner*, of a cheque wrongfully dishonored, has never yet been tried.

It is very commonly stated that the holder of a cheque is only the assignee of an equitable *chose-in-action*, and, consequently, cannot sue at law in his own name. It is frequently stated that his only remedy is against the drawer or indorser of the cheque. In equity a creditor may effectually assign over his debt to a third person; therefore the holder may recover in equity against the banker, if he has funds in his hands.

It has been the general impression that he cannot sue him at law, because the banker has not *accepted* the cheque, and by the *Law Merchant*, the drawee is not bound to pay a bill he has not accepted.

In the case of *Bellamy v. Marjoribanks*, one of the leading cases on crossed cheques before the alteration of the law, the Court of Exchequer said: "The lawful owner of a cheque is of necessity entitled to receive payment of it. He could not sue the drawee, unless he had accepted the cheque—a practice not *usual*, but *legal*—but he could sue the drawer on non-payment of it, if he was the holder for value. The case was decided in 1852, a considerable time after the passing of the Bank Charter Act of 1844; and in this part of the judgment there is clearly an oversight. It is said that it is not *usual*, but *legal*, to accept a cheque. This, however, is clearly and expressly prohibited by the 11th section of that Act.

The ground of this opinion is that by the Law Merchant a drawee is not bound to pay without acceptance. But the custom of bankers is part of the Law Merchant, and is judicially recognized as such. And, by the custom of bankers, a banker is an exception to the ordinary rule. *A banker's possession of a customer's funds is equivalent to acceptance*, and has always been recognized to be so.

If it be said that it is not the custom of merchants that the *holder* of a bill unaccepted by the drawee, should have an action against him, neither is it according to the Law Merchant that the *drawer* of a bill unaccepted by the drawee should have an action against him for non-payment. In this case, however, the exception is clearly recognized, and if it be recognized in the one case, why not in the other?

The case, in fact, has never yet been argued on its merits. If it were so, we venture to think, that considering the origin, history, and nature of cheques, it would be found that the custom of bankers, that the possession of a customer's funds is equivalent to acceptance, would be found to hold good in all cases for legal purposes, in the case of the holder as well as the drawer, especially now that it is illegal for a banker to accept a cheque.

A customer is said only to have an action against his banker for a wrongful refusal to honor his cheque, because it affects his credit. But it is quite easy to suppose a case in which a wrongful refusal to pay a cheque might in no way damage a customer's credit, but very seriously affect the holder's credit. Suppose a gentleman leaving town for the season, were to pay his tradesmen by cheques, leaving funds at his bankers to meet them. His tradesmen, perhaps, have their own bills to meet, and the wrongful refusal to pay these cheques may make a tradesman unable to meet his own bills, and thus make him bankrupt. Would he not have, and would not his assignees have, an action for damages against the banker, equally as the assignees of the drawer would have under similar circumstances? The case, it may be, is not so likely to arise as regards the holder as the drawer, but if it did, we venture to think that the rule which holds in the one case, would be found to hold in the other.

#### *Crossed Cheques.*

24. When bankers' clerks met at the Clearing House, it used to be the custom for them to write the names of their house across the face of all cheques presented by them. This, of course, was a mere memorandum to shew who the presenters and owners of the cheques were, in order to assist the Clearing House clerks to make up the accounts. This in no way restrained the negociability of the cheque, because, when it was done, the cheques were actually presented for payment, and taken out of circulation.

The practice, however, spread to the public, and was used by them with a very different intention. It became usual for the drawer to write the name of the payee's banker across it, or to leave the name in blank, and merely to put —— & Co., so that the payee might fill it up. If he passed it away, it was also usual for the transferee to erase any previous name and substitute any other. But the express purpose of this crossing was to make it payable to that banker only whose name was written across it. By this means the cheque was only payable to *some* banker. This, however, was a plain violation of one of the fundamental requisites of a cheque, so as to exempt it from the stamp duties. The custom, however, became very general, and several cases were tried to determine what the legal effect of this crossing was. We need not mention these, as the law was found to be so doubtful, or rather, we may say, so clear against the practice, that an Act was passed to legalize it. It was enacted, by the 19 and 20 Vict., c. 25, that if any draft payable to bearer, or order on demand, was crossed with the name of any banker, or the words "and Company" in full or abbreviated, such additions should have the force and effect of a direction to

the bankers upon whom it was drawn, to pay it only to, or through, some banker.

Soon after this, a person stole a crossed cheque, erased the crossing, and presented it for payment. The bankers paid it over the counter. An action being brought against them, it was held that the crossing was not an integral part of the cheque, it was a mere memorandum, and, consequently, the erasure of it was not a forgery, and if it did not appear on the face of it, when presented for payment, the bankers were justified in paying it to bearer. To remedy this, it was enacted, by 21 and 22 Vic., c. 79, s. 1, that whenever a cheque or draft on any banker payable to bearer or to order on demand, shall be issued, crossed with the name of a banker, or with two transverse lines with the words (and Company), or any abbreviation thereof, such crossing shall be deemed a material part of the cheque or draft, and, except as hereafter mentioned, shall not be obliterated, or added to, or altered by any person whomsoever, after the issuing thereof; and the banker upon whom such cheque or draft shall be drawn, shall not pay such cheque or draft to any other than the banker with whose name such cheque or draft shall be crossed, or if the same is crossed without a banker's name, to any other than a banker.

If any cheque is issued uncrossed, or crossed in blank, any lawful holder of it, may cross it with the name of a banker, and then it becomes a material part of the cheque, as in the former case; and any person obliterating, altering, or adding to a crossing on a cheque, with intent to defraud, is guilty of felony, and, on conviction, may be sentenced to penal servitude for life, or for not less than five years, or imprisonment for two years, with or without hard labour, and with or without solitary confinement.

A banker, however, is not to be held liable if he pays a cheque which does not at the time of presentment of payment, plainly appear to be, or to have been, crossed, or to have been obliterated, added to, or altered, to any other than a banker, unless he acted *malâ fide*, and negligently.

Blank forms of cheques are now printed with the crossing ——— & Co., and when the payee requires cash, the drawer underwrites the crossing with "Pay cash," and signs it. This being done *before* the cheque is issued, nullifies the crossing, and the banker cashes it across the counter.

25. With respect to cheques payable to order on demand, the 16 and 17 Viet., c. 59., s. 19, enacts that when such cheques are presented for payment, purporting to be indorsed by the payee, the banker shall not be bound to inquire into the genuineness of the signature. It has been held that an indorsement by procuration is within the meaning of this enactment.

An infant cannot draw or sign a valid cheque, for he cannot give a valid discharge.

*Executors, administrators, and partners* are in law but one person, and the acts of one are the acts of all. Hence, if they keep an account at a banker's in their joint names, any one of them may draw upon it, and the payment is good. And it has even been held that after the dissolution of partnership, of which the banker had notice, and a person appointed to receive the debts of the partnership, the banker may honour the cheque of any one.

In the case of a *corporate* body, at common law, a cheque would require to be under the common seal, or by some person authorized to sign it by a deed under the common seal. In modern trading corporations power is given to certain officers to draw and sign cheques, and all cheques must be signed by all of such persons with their proper designations. Unless the persons are properly designated the cheque is not valid, and the payee cannot recover.

26. Cheques are meant to be *presented* within banking hours of the day following that on which they are received. If not presented within that time and the banker fail, the drawer and other parties will be discharged, if the drawer had funds to meet the cheques in the bank at the time. But otherwise the remedy of the holder against the drawer will continue for 6 years; as in the case of other debts. If, however, the payee could shew that at no time between his receipt of the cheque and the stoppage of the bank, the drawer had funds to meet the cheque, he would be liable. If it could be shewn that the drawer knew that the bank had stopped when he delivered the cheque, presentment probably need not be proved. But in all other cases presentment at the banking house of the bankers within banking hours must be proved.

27. When cheques are paid into a bank after clearing time, it is usual to send them to the houses on which they are drawn, when, if the bankers mean to pay them, they "mark" them, which is an engagement that they will be paid at the Clearing House next day, and they have priority before the cheques which come in that day.

It is very doubtful, however, whether this practice is not a direct contravention of the Bank Act of 1844, s. 11, which expressly prohibits bankers from *accepting* any engagement to pay money on demand. In a case the court held the marking to be *similar* to the accepting of a bill; for it was an admission of assets, rendering the banker liable to pay, and the same as if the banker had written on the cheque "We will pay this to bearer at the Clearing House." At the time this judgment was given the acceptance of a bill did not require to be in writing. Now,



however, by 1 and 2 Geo. IV., c. 78, s. 2, the acceptance of a bill must be in writing on the bill. But this does not require a full signature. Any writing on the bill which amounts to a recognized engagement to pay is equivalent to an acceptance. Besides that the words of the section are in the most comprehensive form forbidding a banker to “*make any engagement to pay money on demand.*” Now, this custom of *marking* cheques clearly comes under the words of that Statute.

When a banker pays a cheque, he must, by Statute 55 Geo. III., c. 184, s. 19, *cancel* it under a penalty of £50. This cancelling is done by crossing over the signature of the drawer.

It is said above, that whenever a customer has paid in money to his account, the property of it has gone to the banker, and the customer cannot take it back without its being given to him. The same rule holds good with regard to the banker. If he has once paid his customer's cheque, the property in the money is gone from him, so that if he pays the cheque in mistake, he cannot compel his customer to give him back the money.

#### *On Bills made Payable at a Banker's.*

28. It is a very common custom for traders to make their bills payable at their bankers, and they are in many respects similar to cheques the day they become payable.

When a bill was made payable at a banker's it was held that presentment there must be laid and proved in an action against the acceptor. The Statute, however, 1 and 2 Geo. IV., c. 78, enacted, that an acceptance payable on the face of it at some particular place, was to be considered as a general acceptance, unless it was expressed to be payable there only, and not otherwise or elsewhere.

In order to charge the *acceptor*, therefore, it is not necessary to present it at the place specified, but it is necessary to charge the *drawer*.

If a bill, accepted payable at a banker's, be indorsed to the banker, he being banker to the acceptor, he need not aver presentment to the acceptor to charge the indorser, because he has only to refer to his own books, and then, if he has not sufficient effects in his own hands, that is enough.

The drawer of a bill, accepted payable at a banker's, discounts it to the banker, who rediscounts it. The acceptor, not having funds to meet it, the banker pays it at maturity, and gives notice of dishonor to the drawer. He did not indicate to the holder whether he paid as indorser, or as agent for the acceptor. It was held that he had a right to pay as indorser, and debit the drawer's account with the amount.

If a bill be accepted payable at a particular town, presentment at all the banking houses in that town is said to be sufficient.

An acceptance payable at a banker's, being a general acceptance,

if the banker fail after the maturity of the bill, but before presentment, having funds to meet the bill, the holder is entitled to recover from the acceptor. In this a bill differs from a cheque.

A banker, being bound to know his customer's handwriting, would be liable if he paid a forged acceptance of his customer. It has been held that if the payee's indorsement be forged, a banker could not debit his customer's account with it. But such a doctrine as this seems repugnant to reason. A banker knows his own customer's handwriting, because, on opening an account, he makes him sign his name in a book, but how can he possibly know the handwriting of every one to whom his customer makes his bill payable?

If a banker discounts for a third party a bill purporting to be accepted by a customer, which acceptance turns out to be a forgery, he can, like any one else, recover from the third person.

If a banker pays the forged acceptance of his customer, and does not discover it till the day after, he cannot receive back the money from the holder to whom he paid it. It was doubted, however, whether he might have done so, if he had discovered the forgery the *same* day, and given notice to the party so that he might have sent to the prior parties on that day.

Money paid in by a customer expressly for the purpose of paying a bill accepted by him, payable at the Bank, and lying there for payment, must be appropriated to the payment of that bill, and cannot be carried to the general account of the customer.

If a customer becomes bankrupt, or dies, the banker must not pay any of his cheques or bills, after receiving notice of the fact, because the property in the customer's money has gone, in the first case, to his creditors or assignees, and in the second to his executors.

A banker must debit his customer's account with cheques from the day when they were paid, not from the day on which they are drawn.

A cheque cannot be the subject of a *donatio mortis causa*.

29. Besides receiving money repayable on demand, in such sums as the customer pleases, banks, especially joint stock banks, receive definite sums of money for specific times, upon which they give interest. As certificates of these, they give *deposit receipts*, which are not transferable. Every time that the customer augments the deposit, the interest is added to the old sum, and a new deposit receipt is given. So, when he withdraws any sum, the old receipt is given up and a new one given in exchange.

30. Other banking documents of credit, are *bankers' drafts*, *letters of credit*, and *circular notes*. If a customer wishes to

remit money from one place to another, his banker gives him a draft on that place, payable so many days after sight, or, if it is on demand, he charges a certain amount of interest. There are fixed times and sums for such drafts between different towns, and these times and sums are called the *par of exchange*, between them, or *usage*, and have been established by long custom.

Many banks besides these, for the convenience of travellers, issue *letters of credit* to a fixed amount, which their customers can present to any of the bank's correspondents abroad, or *circular notes* for fixed amounts, which are cashed at the exchange of the day, free of charge.

31. In order to enable a customer to know the state of his account with his banker, the latter gives him a transcript of his account from the ledger. This is called a *Pass-book*, and all the customer's dealings are entered in it. The customer from time to time returns it to his banker, who makes the proper entries in it, and gives it back to his customer. The latter, of course, has the right to have any mistakes corrected. But acquiescence in the pass-book is conclusive evidence of the course of dealing between the banker and customer. If any change in either firm take place, a new pass-book should be given.

Credit given in a pass-book binds the banker, unless he can clearly shew that it was an entry by mistake.

But, though a pass-book being acquiesced in is evidence of the course of dealing between the parties, any particular entry, of course, is not conclusive evidence, if it be proved to be wrong.

### *On Banking Investments.*

32. Though a banker is bound theoretically to repay every one of his customers instantly on demand, yet, as no man whatever would spend all his money if it were in his own possession, but would keep a store of it, and spend it gradually, so, when he keeps it at his banker's, he will not be likely to require it all at once, but will keep a store of it there, just as he would have done if he had kept it at home; and the banker is able to trade with it in a variety of ways, if he takes care to keep by him sufficient to meet any demand his customers are likely to make on him. The different methods in which a banker trades with the money left with him by his customers, depend very much on the class of his customers and their occupations, and the general business of the locality he lives in. He must adapt his business in such a way as may be most suitable for the class of customers he has to deal with; so that he may never fail, for an instant, to meet any demand. If his customers are chiefly country gentlemen, whose rents are remitted regularly, and who draw them only for family expenditure, he may calculate pretty accurately

on the demand likely to be made on him, and he may lend out his funds on more distant securities than are proper in other cases. Such are chiefly country bankers in agricultural districts, and those at the West End of London.

But when a banker does business in a trading community, who are in constant want of their money, and whose demands are much more frequent and unexpected, he must adopt a very different line of business. He must then have his funds within reach at a very short notice, and he ought to have them invested in such property as he can re-sell on a very short notice, to meet any unexpected pressure upon him. The business of such a banker will chiefly consist in discounting bills of exchange, and is of a distinct nature from that of lending money on mortgage.

We must now consider the various methods in which bankers trade. They are, 1st, by discounting bills of exchange; 2ndly, by advancing to their customers on their own promissory notes, with or without collateral security; 3rdly, by means of cash credits, or, as they are sometimes called, overdrawn accounts; 4thly, by lending money on mortgage; 5thly, by purchasing public securities, such as stock or Exchequer bills.

#### *On Discounting Bills of Exchange.*

33. In Chapter III., we have fully explained the nature and origin of bills of exchange—in the present Chapter we have only to make some practical observations on the subject.

If an abundant supply of perfectly good bills of exchange were always to be had, they are, no doubt, the most eligible of banking investments, for their date is fixed, and the banker always knows the precise day when his money will come back to him. He charges the profit at the time of the advance, and he gains it, whether the customer draws out the money or not; and, in a large bank, it must often happen that drawers, acceptors, and payees, are all customers of the same bank, so that when the drawer has his account credited with the proceeds of the bill, and draws out the money, so far as he is concerned, in many cases it must happen that the cheque finds its way to some one who is a customer of the same bank, and, therefore, the bank has reaped profit on creating a credit, which is simply transferred from one account to another. And the same results take place much more frequently by means of the system of clearing, explained in the next Section, by which all the banks that join in it, are, in fact, but one great banking institution. If it should happen that a customer of one of the great banks draws a cheque in favour of the customer of another, the chances are, that some customer of that other bank has done precisely the same in favour of a customer of the first bank, and these claims are settled by means of the Clearing House, by being set off one against the other, without any demand whatever for coin. The

more perfect, of course, the clearing system, the less coin will be required. Consequently, the great part of banking profits are now made simply by creating credits, and these credits are paid, not in cash, but by exchanging them for other credits.

When a banker *discounts* a bill for a customer, he buys it, or purchases it, out and out from him, and acquires all his customer's rights in it, that is, of bringing an action against all the parties to it, and also of reselling it again if he pleases, or *re-discounting* it, and this is one of the great advantages of discounting bills, that if there be an unusual pressure for cash on the banker, he can resell the bills he has bought.

The bills a banker, then, has bought, are his stock-in-trade. He buys them from his own customer for a certain price, and sells them again to the acceptor, just as a hosier may buy stockings from the manufacturer, and sell them to a customer.

When a banker discounts a bill he writes down the full amount of the bill to the credit of his customer, and at the same time he debits him with the discount on it.

We have observed that this method of trading is more profitable than interest, and the profit rapidly increases the higher discount is. A very slight consideration will shew this. Suppose a money-lender advances money at 50 per cent. interest. He would advance his customer £100, and at the end of the year receive his £100 back, together with the £50. His profits, therefore, would be 50 per cent. But suppose he *discounts* a bill for £100 at 50 per cent. He would only actually advance £50, and at the end of the year he would receive £100, consequently he would make a profit of 100 per cent.

If the lender lent the money at 100 per cent. *interest*, he would advance £100, and receive £200 at the end of the year. If he *discounted* a bill at 100 per cent., he would advance *nothing*, and receive £100 at the end of the year, or his profit would be *infinite!*

Now, without incumbering ourselves with mathematical formulæ, we may give a table shewing the difference in profit between *Interest* and *Discount*:—



*Table shewing the profits per cent. and per annum at Interest and Discount.*

Interest.	Discount.	Interest.	Discount.
1	1·010101	8½	9·311475
1½	1·522832	9	9·890109
2	2·040816	9½	10·496132
2½	2·564102	10	11·111111
3	3·092783	15	18·823529
3½	3·626943	20	25·000000
4	4·166666	30	42·857142
4½	4·701570	40	66·666666
5	5·263157	50	100·000000
5½	5·820105	60	150·000000
6	6·382968	70	233·000000
6½	6·951871	80	400·000000
7	7·526881	90	900·000000
7½	8·108108	100	Infinite.
8	8·695652	—	—

A consideration of this table will explain the enormous profits made by bankers when discount is high, and also shew what discounting a bill at 50 and 60 per cent.—which we occasionally hear of in courts of law—means.

The system of discounting bills is intended to be the sale of *bonâ fide* debts for work done, or for property actually transferred from one party to another, and there is nothing that requires more sleepless vigilance on the part of a banker than to take care that the debts he buys are genuine and not fictitious ones. When bills are offered for sale, he ought to know whose debt it is that he is buying, and he ought to be able to form some conjecture as to the course of dealing between the parties, which could give rise to the bill. Bills should not only be among traders, but only according to a particular course of trade. We will speak of real debts in the first place; and these may arise in a number of different ways. First, between traders in the same business, and, secondly, between traders in different species of business, but yet for work done. If we take the case of manufactured or imported goods, there are usually three stages they pass through—1st, from the manufacturer or importer to the wholesale dealer; 2ndly, from the wholesale dealer to the retail dealer; and 3rdly, from the retail dealer to the consumer. Each transfer of property may give rise to a bill; but, of these, the first two are by far the most eligible, and are

most peculiarly suitable for a banker to buy, the third should only be purchased with very great caution, and but rarely.

There are other cases of good trade bills, when one business requires the supply of different productions, such as a builder requires supplies of wood, lead, slates, bricks, and other materials.

Hence, a bill of a wood merchant, or a lead merchant, on a builder, would be a very natural proceeding, and apparently a proper trade bill. Again, bills may legitimately arise between traders of wholly different descriptions, but yet for work done. Thus, if a builder fits up premises for a shopkeeper or merchant, a bill between the parties for the work done is a very legitimate one for a banker to discount. All these bills, therefore, follow the natural course of trade, and carry the appearance, on the face of them, of being genuine.

But if a banker sees bills drawn against the natural stream of trade, it should instantly rouse his suspicion. Thus, a bill drawn by a wholesale dealer upon a manufacturer, or by a retail dealer upon a wholesale dealer, would be contrary to the natural course of trade, and should arouse suspicion. A bill drawn by a lead merchant upon a builder would be proper on the face of it, if there were nothing to excite suspicion; but a bill of a builder upon a lead merchant would be *suspicious*, unless it were satisfactorily explained. Moreover, bills of one person upon another doing the same business are suspicious upon the face of them. Thus, a bill of one manufacturer upon another in the same business, or between one wholesale dealer and another, are evidently suspicious, because there is no usual course of dealing between them. Besides, such bills are chiefly generated in speculative times, when commodities change hands repeatedly, on speculation that the prices will rise. Bankers should be particularly on their guard against buying bills drawn against articles which are at an extravagant price, in times of speculation.

As it by no means commonly happens that the drawers and acceptors of bills are customers of the same bank, the banker is *primâ facie* influenced by the respectability of his own customer, who is the drawer or indorser of the bill. He ought, however, to acquire specific information regarding the persons upon whom his customers are in the habit of drawing, and satisfy himself that they are likely to be genuine bills. And this vigilance should never be relaxed in any case whatever. We hold it to be utterly contrary to all sound banking to take bills merely on the supposed respectability of the customer. But we believe it to be far too common a practice to look merely to the customer's account. Customers begin by getting the character of being respectable—they bring, perhaps, good bills at first—and keep good balances; and their bills are punctually met.

This regularity and punctuality are very apt to throw a banker off his guard. He thinks his customer is a most respectable man, doing a good business; all the bills are taken to be trade bills. By-and-by the customer applies for an increased discount limit, on account of his flourishing business. The banker is only too happy to accommodate so promising a customer. His discounts swell, and his balances diminish, but his bills are still well met. However, the times come, perhaps, when the banker thinks it prudent to contract his business generally, and this may be one of the accounts he may think it expedient to reduce; and then he makes the pleasant discovery that there are no such persons at all as the acceptors, and that the funds for meeting all these bills have been got from himself!

Such cases as these are not unlikely to happen when London houses supply small country tradesmen, and draw bills on them. When a man has established a good character, it is impossible to require information about every bill before it is discounted; but we do not hesitate to say, that it is of the first importance that a banker should be constantly probing his customer's accounts, and get information of the persons they draw upon. It was wittily said by some one (Lord Halifax, we believe) "that man in this world is saved chiefly by *want* of faith." This is eminently true of banking. A banker should have faith in no man. The amount of villainy and rascality which is practised by means of accommodation and fictitious and forged bills, would exceed belief, if such disclosures were made public. However, it is contrary to the policy of bankers to allow it to be known how they are robbed and cheated. Their interest covers a multitude of sins. If criminals were prosecuted according to their merits, the calendar would swell up to a frightful extent. There is, probably, no class of society who see felonies committed so frequently as bankers, and are necessitated to let them go unrepessed and unpunished. The number of unconvicted felons that go about with impunity in the commercial world is something horrible; and there is reason to fear that such things are encouraged by the too easy faith reposed in their customers by bankers. If bankers were more vigilant in scrutinizing their customers' accounts, many would have been cut short in a career of crime—of accumulated robberies, which generally terminate in disaster to the bank.

As it is contrary to all sound principles of banking to discount bills solely on the customer's respectability, as appearing from his account, so any customer should be regarded with suspicion who is not ready and willing to communicate information to his banker about his affairs. If he will not candidly communicate the state of his affairs to his banker, how can he expect him to give him assistance in the day of trouble? Some customers, however, are mightily indignant if their banker wil

not discount their bills on the strength of their names without regard to the acceptor. But as such a practice is contrary to sound banking, so it will invariably be found that these are not desirable customers to have, and it would be well for a banker quietly to shake off his connection with them, as, in the long run, they will probably bring him more loss than profit.

So much for discounting bills of exchange, which consists of buying debts, and not *lending* money. A banker, however, may not always be able to find a sufficient quantity of debts to buy, to absorb all his disposable funds, or he may not choose to employ them all in that manner; and some of his customers may want a temporary loan on security, who have no bills to sell. The banker takes his customer's promissory note for the sum payable at the date agreed upon, and also a deposit of the convertible security as collateral security. He does not advance on the goods or security itself—that is the business of a pawnbroker—but on the personal obligation of his customer, and the securities are only to be resorted to in case of the failure of the customer to pay his debt. These convertible securities are chiefly public stock, Bank stock, India bonds, shares in all sorts of companies, railway, bank, insurance, &c., &c., dock warrants, bills of lading. Whenever he takes any of these as collateral security, he ought to have a power of sale from his customer, in case he fails to discharge his obligation. These loans, though often they may be made to respectable customers, are not desirable advances for a banker to make, and he should be chary in encouraging them too much, for they frequently are demanded from the borrower having locked up too much of his funds in an unavailable form; consequently, there is much danger of the obligations not being paid at maturity, and then come requests for renewals, and the banker is either driven to the unpleasant necessity of realizing this security, or else having his temporary advance converted into a dead loan.

Persons who seek for such advances habitually, are most probably speculating in joint stock companies' shares. They buy up shares on speculation, which they hope will advance in price; they then wish to pledge the shares they have already bought to purchase more, then perhaps, a turn in the market comes, and the value of the whole goes down rapidly; they are unable to pay their note, and the banker may perhaps have to realize the shares at a loss. During the railway mania of 1845, a number of banks, called exchange banks, were founded expressly on this principle of making advances on joint stock companies' shares; especially railway shares; but they have all been ruined, and some of them, we believe, suffered frightful losses from the great fall in the value of railway stock.

The objection to such transactions in a banking point of

view is that the promissory notes of these customers and their securities are not available to the banker in case he is pressed for money. Moreover, they are barren, isolated transactions, which lead to nothing; whereas a discount account promotes commerce, and grows more profitable as the business of the customer increases.

There is also a very important point to be considered in the shares of many companies which are offered as collateral security, that, by the deeds of the companies, no property in the shares passes, except by the registration of the name of the holder in their books. Now, while the customer is in good circumstances, there may be no danger; but if he becomes bankrupt, the banker is not entitled to retain the shares against the other creditors. If the bankrupt is the registered owner of the shares, his creditors are entitled to them, consequently, if the banker means to complete his security, he must have himself registered as the owner of the shares, and thereby becomes a partner in a multitude of joint stock companies, of whose condition he can know nothing. Then, perhaps, calls are made, and the banker finds that, instead of buying a *security*, he has bought a *liability*, and he must pay up the calls, or forfeit the shares.

All such advances, therefore, should be made very sparingly, and only with such surplus cash as the banker may not be able to employ in buying good bills; and they should only be made to such persons as he believes to be perfectly safe, without the deposit of the security. No banker would make such an advance if he really believed that he should be obliged to realize the security to repay himself, as such proceedings will always make a soreness between himself and his customer, who will be averse to seeing his property sold at a sacrifice, as he may call it.

Advances on dock warrants, and other similar securities, are also liable to many similar objections, and should be very sparingly done, as they subject a banker to much trouble beyond the line of his proper business, and are indications of weakness in a customer. Many customers will expect to have loans upon leasehold or freehold property left as security, but these are the most objectionable of all as collateral securities. Many, if not the greater portion of leases, prohibit the tenant letting the property, without the written permission of the landlord, consequently such leasehold property is no security at all to a banker. Freehold property is not exposed to this disadvantage, but the process of realization is so uncertain, and long, and tedious, that it is perfectly unavailable to the banker in case of necessity. In fact, we believe the best rule in all cases of loans with collateral security (except in such instances as public stock) is to avoid, as much as possible, making them to any one who is not perfectly good without them.



34. The objection to cash credits on the part of London bankers is exactly similar to advances on mortgage, that in time of pressure it is very difficult to call up the advances, and the securities are not generally realizable. But if cash credits are objectionable still more are purchases of foreign securities, such as stock in foreign railways. Many of the Joint Stock Banks that stopped payment during the crises of 1857 and 1866 sinned grievously in this respect of locking up their funds in foreign countries.

If temporary loans on real property are objectionable as securities to City bankers, much more so are mortgages, which are intended by their very nature to last for years. Such transactions are, therefore, chiefly confined to country bankers, and those at the West-end of London, whose connections lie more among the landed than the commercial interest, and who are not liable to be called upon so suddenly for cash.

35. Besides these operations, all of which are founded upon personal liability—all of which contain personal obligations to pay fixed sums of money, and are, therefore, dealings in “currency”—bankers usually invest part of their funds in public securities, which are supposed to be more readily convertible into cash than others. Public securities are of two descriptions—the one “currency, or securities for money,” such as Exchequer bills—the other “property, or convertible securities,” such as stock, or the funds; the former being an engagement on the part of the Exchequer to pay a certain sum of money, like any other bill; and the latter being no engagement to repay any fixed sum at all, but only a fixed rent, or sum, for its use. The public funds are a great estate, of which the nation is tenant, and pays a rent for it, solely guaranteed by the public faith.

Each description of public securities has its advantages and disadvantages. The interest on public stock will be found, in the long run, to be higher than those on other descriptions of public securities; but there is this serious consideration, that the value of these stocks is so extremely fluctuating, that when any public crisis comes, and bankers wish to *sell* their stock, they may sustain very great loss. In the week of the great crisis of 1847, when many banks had to sell stock to provide for contingencies, the losses were immense when they bought in again to replace it. Another disadvantage regarding stock is, that all the transactions of bankers must become known, as they have to transfer it. Exchequer bills have this advantage, that a banker can deal in them without its being known to any one but the broker. Exchequer bills, being, like any other promissory notes, an engagement of the Government to pay a definite sum of money, it is not probable that the banker can ever lose so much on them

as on stock. In order to prevent Exchequer bills falling to a discount, they always bear interest, and, in consequence of this, are usually at a premium; and when, by the change in the market rate of interest, they fall to a discount, the interest upon them is usually raised. From these circumstances, the profit of investing in Exchequer bills is less than that from stock.

36. Bankers collect money from those who have it to spare, and advance it, or its equivalent, to those who require it. They may sometimes, themselves, be in a similar predicament. Sometimes they may have more by them than they have employment for; sometimes, from unusual demands, they may be in want of temporary advances. There is a class of persons who undertake this great equalizing process—namely, the bill brokers. They go the round of the bankers every morning, and borrow from those who have to lend, and lend to those who want to borrow.

37. At the present day, the principle of association has been developed to a much greater degree than ever it was before. companies are being formed for all manner of purposes. When these companies apply to open an account with a banker, it will generally be found that they want accommodation. But a banker should very rarely indeed accommodate the *company*, of whose affairs he can know very little. He should never grant accommodation to such a company, unless he is well assured of the responsibility and respectability of the directors themselves; and if he allows the company to have accommodation, it should be only on the personal liability of the directors. He should require from them a joint and several note, payable on demand, reserving his right against the company only as a collateral security. This course will be found to be attended with many advantages, because, if anything goes wrong with the company, he has an immediate remedy without any trouble. Whereas, if the company goes into the Winding-up Court, it will be a considerable time before his claim can be settled; and then there may be some technical objection. The contributor may say the directors had no right to draw bills by the constitution of the company, or they may have exceeded their power; and then he may have to contest his claim through a number of different courts, bringing him nothing but vexation and anxiety.

## SECTION II.

### ON THE CLEARING SYSTEM.

ON THE SYSTEM OF EXCHANGES ADOPTED BY THE FRENCH MERCHANTS AT THE FAIR OF LYONS—THE SYSTEM OF EXCHANGES ADOPTED BY THE SCOTCH BANKS—THE CLEARING HOUSE OF LONDON.

1. In Chap. I., sec. 13, we pointed out that the quantity of money in any country bore no necessary relation whatever to the quantity of goods, &c., in it, as has sometimes been supposed; the quantity of money required, depended very much on different methods adopted to settle business transactions. We shall now shew the important practical consequences of this doctrine, and how erroneous certain prevalent doctrines are concerning the currency.

2. Boisguillebert, in his *Dissertation sur la nature des richesses*, one of the earliest treatises on Political Economy, a work full of interest, and which well deserves attention, from its being one of the ablest of the early refutations of the Mercantile Theory, mentions the fair at Lyons, where it was customary for merchants to balance their debts without the payment of money. This custom we believe began in the 16th century. There was a great annual fair at Lyons, and the French merchants, instead of making their bills payable every three months or so, by which they would have had to keep a stock of bullion ready to meet them, and unemployed, made them payable only at the fair of Lyons. The bills circulated through the country, and got, perhaps, covered with indorsements. At a certain period during the fair, the merchants met for a general settlement and adjustment of accounts, and Boisguillebert says that by this means transactions to the amount of 80,000,000 were settled without a sou in money.

We thus see how erroneous is the supposition that all bills of exchange are finally settled in money. Even at this early period the French merchants had found out the advantage of periodically meeting to adjust their debts by a mutual release of them, rather than by payment in money. The same practice, we believe, was usual at other fairs. Now these bills had passed through many hands, and had performed many exchanges before they were exchanged and extinguished, and in this respect they were equivalent to money.

3. The first plan of this kind in this country, that we are aware of, was that adopted by the banks at Edinburgh. For a considerable period there, the rival banks used to do all they could to injure each other. It was no uncommon thing for them to collect a

large quantity of each others' notes, and present them for payment, in the hope of ruining their rivals. At last, however, they became sensible that this undignified conduct was mutually injurious, and they agreed that they should meet twice a week, and adjust their respective claims, and that they should make no demand on each other, except at these times. This exchange was made alternately at the offices of the Bank of Scotland and the Royal Bank. The different Edinburgh banks acted as agents for the provincial banks of issue, so that by this means all the banks in Scotland were brought into the "Clearing Room." The clerk of each bank made out a list of his claims against, and liabilities to, each of the others, and each bank used formerly to settle its debts by a draft at ten days on London. This method of settlement, however, being inconvenient, a new plan was adopted. Every bank in the Clearing House is obliged to purchase a certain number of £1,000 Exchequer bills, proportioned to its average circulation, and the balances are paid by means of these Exchequer bills. Sums under £1,000 are paid by means of the £100 notes of the Bank of England, or the Bank of Scotland, the Royal Bank, or the British Linen Company. The following rules explain the system:—

*Regulations for Settling the Bank Exchanges at Edinburgh.*

1. There shall be, every Thursday morning, an exchange of the notes collected on Monday, Tuesday, and Wednesday; and every Saturday an exchange of the notes collected on Thursday, Friday, and Saturday. The balances struck on Saturday shall, with the Glasgow and country exchange receipts, be settled on Monday. The balances struck on Thursday shall be settled on the same day; and this settlement shall include the country exchange receipts of Wednesday, and the Glasgow receipts on Thursday. The exchange on Saturday shall not be interrupted by holidays; but on these occasions it shall commence at half-past nine o'clock a.m.; when Monday is a holiday, the settlement shall be made on Tuesday.

2. When exchanges are established in provincial towns, the notes received at the exchanging agencies there, must wait for the return of the next local exchange day; and must under no pretext be forwarded to meet the exchanges in Edinburgh, or at the other agencies.

3. All payments of balances shall be made in Exchequer bills of £1,000 each, the thousands of the balance to indicate the number of Exchequer bills; it being understood that Bank of Scotland, Royal Bank, or British Linen Company notes of £100 each, or Bank of England notes of £100 and upwards, or gold shall be employed to pay fractional parts of £1,000 only.

4. The amount of Exchequer bills to be kept in the exchange circle is apportioned as follows:—The Bank of Scotland, the

Royal Bank, the British Linen Company, the Commercial Bank, the National Bank, the Union Bank,—£24,000 each; the Clydesdale Bank, and the City of Glasgow Bank, £12,000 each.

5. Exchequer bills put into the circle, to be filled up, payable to the banks which have originally contributed them, and to be blank indorsed when first paid away. They shall be registered, before they are put into the circle, in a book kept in the Bank of Scotland for the purpose, and shall bear the distinguishing mark of "Edinburgh Exchange Bill" affixed by the Bank of Scotland, shewing that they belong to the Edinburgh exchanges, and are not to be used for any other purpose whatever.

6. All the Exchequer bills placed and retained in the Exchange circle, bear an uniform rate of interest, and shall be paid and received in the exchanges at their nominal par value, with the interest accrued; and, when they are withdrawn, in consequence of being called in, or from an alteration in the rate of interest, a voucher shall be issued for each Exchequer bill by the banks by whom they were provided, to pass as such, till replaced by the new bills, in course of post, after they are issued from the Exchequer.

7. As Exchequer bills may be expected to accumulate occasionally with some of the banks, while the stock of others is exhausted, or becomes low, the parties holding the greatest amount of bills shall be bound to sell to the parties in want of them, who shall, on the other hand, be obliged to buy; but, the holders shall not be required to reduce their stock of Exchequer bills, by selling below an excess of two-thirds over their original quota, unless necessary for the settlements; and parties whose stock of bills is short, shall not be required to purchase more than will make up their stock to one-third of their original quota.

8. Purchasers of Exchequer bills shall buy from parties holding the largest proportional amount with reference to their original quota, and two-thirds more; and the party holding the largest proportion shall have a continued preference in selling to one or more purchasers, until the stock of the selling bank is reduced to two-thirds above their original quota, when the next largest proportional holder at the time shall have the preference and so on.

9. Exchequer bills bought shall be paid for by drafts on London bankers, at five days' date; and the purchasers of Exchequer bills shall pay, in addition to the principal sums in the bills, the growing interest, at the rate allowed by the Exchequer, up to the date of the drafts falling due in London, and shall furnish stamps for the drafts.

10. Transactions in the purchase and sale of exchange bills may be made on either of the settling days of the week; but, they shall be made only in the exchange room, and solely for the settlement of the exchange; and no private transactions of this kind, between bank and bank, shall be permitted, so that the number of Exchequer bills in the hands of any one party,



after the exchanges are so settled, shall be the number returned on the next exchange day.

11. In the event of any exchange draft being dishonored, without prompt and most satisfactory explanation of the cause, the bank issuing such draft shall be immediately excluded from the Clearing Room, and their notes shall be refused in all future transactions with the public.

12. The exchanges shall be made alternately—on Thursdays in the Bank of Scotland, and on Saturdays (with the relative settlement on Mondays) in the Royal Bank; and these banks will undertake to receive from the banks which are debtors, and to pay to the banks which are creditors, in the exchanges, the Exchequer bills, Bank of England and other notes, and gold, which are passed in payment of the balances; but the Bank of Scotland and the Royal Bank shall not, nor shall either of them, be in any way responsible for the exchange transactions, nor otherwise soever.

13. The clerks of the different banks shall appear in the Clearing Room at ten a.m. on Thursdays and Saturdays, and, before the exchange operations commence, they shall write down on the board allotted for the purpose the amount of Exchequer bills held by the banks they represent; and, after the balances are struck and ascertained on the settling days, they shall mark on the same board the Exchequer bills which will be in their hands after the balances are settled by the Bank of Scotland and Royal Bank; and this is to be considered the number on which all transactions in the purchase and sale of Exchequer bills for that day shall be founded.

14. After the balances are struck on Thursdays and Mondays, statements of the same shall be conveyed to the respective banks by their own clerks, who shall afterwards attend in the Clearing Room, to pay and receive the balances due, at half-past eleven o'clock on Mondays, and at half-past three o'clock on Thursdays, after the vouchers of the balances of the Glasgow exchange of that day are received. These are to be conveyed by a special messenger from the Glasgow banks of issue alternately, and to be delivered by him personally at the banks to whom they are addressed in Edinburgh.

15. The British Linen Company having, from a desire to promote the general convenience, consented to forego the advantage they have hitherto enjoyed of making their whole exchanges with banks junior to themselves within their own office, no certified statements of their separate exchanges will henceforth be necessary.

16. The seventh and eighth regulations will tend in a great degree to equalize the amount of Exchequer bills among the different banks; but as it may possibly happen, notwithstanding, from some peculiar state of the exchanges, that Exchequer bills may accumulate in the hands of one bank to a considerable

amount beyond its quota, and two-thirds more, without the power of sale to any other bank, according to the above regulations, then that bank, when the amount on hand exceeds fifty-seven, may require the bank holding the fewest number, although not under one-third of their quota, to purchase up to their quota, and so on to the next lowest, until the stock of the selling bank shall be reduced to the original quota and two-thirds more.

17. Refers to a schedule at which sales and purchase of Exchequer bills are to proceed.

18. All the exchanging banks shall have free access, at such times as may be convenient, to the record of the exchange transactions.

19. The subscribers having framed these regulations with the view to keep the circulation of Scotland in a sound state, as well as to give facility in the settlement of their balance of notes issued in the fair way of business, and being of opinion that it is discreditable to a bank of issue to force its notes into circulation by exchanging them for other notes in the circle, they resolve to check and discourage any such irregular issues by every means in their power.

20. It is further understood and agreed, in consideration of the circulation of each bank (other than what may be issued against gold and silver coin) being fixed and limited by the Act 8 and 9 Vict., c. 38, that the banks shall bring to the exchange room regularly, at their head office and agencies, all the exchangeable notes which they receive, and that under no circumstances shall any bank issue the notes of another bank of issue in Scotland without permission first asked and obtained.

21. The parties to this agreement shall be entitled to withdraw from it, and to receive back their Exchequer bills at their par value, with accruing interest, on giving three months' notice.

#### *On the London Clearing House.*

4. In 1775 some of the London bankers established a similar daily custom among themselves.

We may explain the advantages and operations of the Clearing House in detail.

Every London banker has, every morning, claims against all, or, at least, most of his neighbours, and, of course, he has to meet claims from them. It used to be the custom for every banker, the first thing in the morning, to send out a number of clerks, to collect the debts that were due to him from his neighbours, who, of course, were obliged to keep cash or notes to meet them. The Metropolis is portioned out into districts called "walks," and each clerk has to collect all the bills, cheques, &c., within his walk. These claims are called *bankers' charges*, and are paid usually in Bank notes, in some cases by cheques drawn upon the Bank of England. The slightest reflection will shew the waste

of Bank notes, caused by this barbarous and clumsy method of settling bankers' charges. It is evident that a very large amount of Bank notes might be saved if the bankers had some method of balancing their claims against each other, and settling only the difference in Bank notes. What the amount of Bank notes which are positively wasted by this method may be is not very easy to tell. It was stated in evidence, before the Committee of the House of Commons, on one occasion, that one Bank alone, the London and Westminster, was obliged to keep £150,000 of notes for this very purpose, which, by a better method, might have been set free, and would have, to all intents and purposes, been so much additional trading capital. Now, if this Bank alone, many years ago, was obliged to keep this enormous sum unprofitable, what must have been the total amount wasted in this manner by all the bankers?

About 1775 the inconvenience of sending out to collect these charges led a number of the city bankers to organize an exchange among themselves, on a similar plan to that already practised among the banks in Edinburgh. They met in a room, and exchanged their mutual claims against each other, and paid only the difference in cash, or Bank notes. It is stated in the Bullion Report, that in the year 1810 there were 46 bankers who cleared; that the average amount of drafts, &c., passed through the Clearing House every day was about £4,700,000, and that all the balances on this account were settled by about £220,000 in Bank notes. The Clearing House was merely an assemblage of private bankers; when the joint stock banks were instituted in the city, they were rigidly excluded until 1854, when the intolerable inconvenience caused to them by the large amount of notes they had to keep idle to meet the "charges," set a question afloat of organizing another Clearing House among themselves. Moreover, it is said, that the private bankers, themselves, felt the inconvenience of the heavy "charges" of the joint stock banks. Partly owing to these circumstances, and partly, we hope, owing to the feeling against the joint stock banks having abated, the London and Westminster, the Union, the London Joint Stock, the London and County, and the Commercial Banks, were admitted to the Clearing House in August, 1854, and the Southwark Branch of the London and Westminster, in August, 1855. The latter being remarkable, not only as a branch of a bank being treated as an independent bank, but also as not being in the City of London. The Bank of England was not admitted to the Clearing House till 1864.

The mode of doing business is as follows:—The bills and cheques which each banker holds on the other clearing banks, are sorted in separate parcels, and at 10.30 a clerk from each bank arrives at the Clearing House. He delivers to each of the other clerks the obligations he has against his house, and receives

from each the obligations due from his own. When these obligations are interchanged, each clerk returns to his own bank. The same process is repeated at 2.30. Each bank has till 4.45 to decide whether it will honor the drafts upon it; if it does not return any drafts upon it before that hour, it is held to have made itself liable on them to the Clearing House. At 4.45 the business closes, and the accounts are made up; and so admirable is the system, that in settlement of the claims *not a single Bank note or sovereign passes*.

Each clearing bank keeps an account at the Bank of England, and the inspector of the Clearing House also keeps one. Printed lists of the clearing banks are made out for each bank, with its own name at the head, and the others placed in a column in alphabetical order below it. On the left side of these names is a column headed "Debtors," and on the right side are marked "Creditors." The clerk of the Clearing House then makes up the accounts between each bank, and the *difference* only is entered in the balance sheet, according as it is debtor or creditor. A balance is then struck between the debtor and creditor columns, and the paper delivered to the clerk, who takes it back to his own bank. The balance then is not paid to, or received from, the other bankers, as formerly, but it is settled with the Clearing House, which keeps an account itself at the Bank of England. The accounts are settled by means of a species of cheque appropriated to the purpose, called *transfer tickets*. They are of two colours, white and green, the white when the Bank has to pay a balance to the Clearing House, the green when it has to receive a balance from it. They are signed by some authorized official of the Bank. Thus, if the Bank is debtor on the balance, it gives a

### *White Ticket.*

#### SETTLEMENT AT THE CLEARING HOUSE.

London, 186

To the Cashiers of the Bank of England,

*Be pleased to transfer from our Account  
the sum of*

*and place it to the credit of the Account of the  
Clearing Bankers, and allow it to be drawn for  
by any of them (with the knowledge of either of  
the Inspectors, signified by his countersigning  
the Drafts).*

£

#### SETTLEMENT AT THE CLEARING HOUSE.

BANK OF ENGLAND,

186

*A TRANSFER for the sum of  
has this evening been made at the Bank, from  
the account of Messrs.  
to the Account of the Clearing Bankers.*

For the Bank of England

£

This Certificate has been seen by me.

Inspector.

If the Bank is creditor on the balance, it gives a  
*Green Ticket.*

<i>Settlement at the Clearing House.</i>		<i>Settlement at the Clearing House.</i>	
<i>London,</i>		BANK OF ENGLAND,	
	186		186
To the Cashiers of the Bank of England.		<i>The account of Messrs.</i>	
<i>Be pleased to CREDIT our Account the</i>		<i>has this evening been CREDITED with the Sum</i>	
<i>Sum of</i>		<i>of</i>	
<i>out of the money at the credit of the account of</i>		<i>out of the money at the credit of the account of</i>	
<i>the Clearing Bankers.</i>		<i>the Clearing Bankers.</i>	
£		For the Bank of England,	
Sent by me,		£	
<i>Inspector at the Clearing House.</i>			

By this admirable system, transactions to the amount of many millions daily are settled without the intervention of a single Bank note.

The two methods which London bankers have of settling their mutual claims, which we have described, by collecting the charges in the morning, and by the Clearing House, suggest several important reflections upon the circulating medium, and the Act of 1844. That Act fixed the sum of £14,000,000, since extended to £15,000,000, as the limit below which the requirements of business would probably not permit the internal circulation to fall. But there is this objection to it, that it was *fixed with reference to a particular method of doing business.* If all the London bankers were admitted to the Clearing House, there would immediately be a very large quantity of Bank notes disengaged from business, and they would either disappear from circulation altogether, or else they might be employed as fresh capital in discounting bills and making loans. On the other hand, let us suppose the Clearing House dissolved, and the clearing banks to revert to the barbarous method of settling their mutual claims practised by the non-clearing banks, several millions of Bank notes would be required to settle their claims. We are satisfied that between these two extreme methods of transacting business—either there being no Clearing House at all, and all the banks demanding payment from each other of their claims in Bank notes, and, on the other hand, all the banks entering the Clearing House, there would be a difference of not less than £12,000,000. Now, it is perfectly manifest, that if the



Clearing House were dissolved, the additional quantity of Bank notes necessary to transact business would not in any way affect prices or business; nor if all the banks were to enter it, could the quantity of Bank notes withdrawn from circulation affect prices or business. Consequently, we observe, that the quantity of Bank notes requisite to transact business depends very much on the particular method of settling claims.

It appears, then, to us to be a fundamental and philosophical objection to all attempts to fix the numerical amount of Bank notes which may be issued by the Bank, that it depends very much on the method of doing business what amount will be required. Consequently, if any Act fixes that amount, and a change takes place in the method of doing business, it must necessarily be fatal to the principle of such an Act. And these remarks touch not merely the Act of 1844, but some of the objections to it; for, in the first place, if the method of doing business upon which the Act is founded, be improved so as to dispense with a large quantity of the notes permitted to be issued by the Act, the Act fails in this—that it contains no power to compel these notes which are so disengaged, to be withdrawn from circulation, which, if the principles of the Act were true, would be a redundancy of the currency. On the other hand, those persons who complain of the restricted amount allowed to be issued by the Act, should, in the first instance, economise the use of those already permitted to be issued to the greatest possible extent, before they demand new issues. Now, an improved method of doing business by the London bankers would certainly liberate a very large amount of Bank notes, which are at present, as we may say, wasted, and afford so much relief to the alleged contraction of the currency.

The operations of the Clearing House also enable us to dispel a very prevalent error among those persons who maintain that bills of exchange are not “currency” or circulating medium, because they can only be discharged by payment of money. Even if such an assertion were true, it would not affect the question in any way, but the assertion itself is wholly erroneous. It is not true that bills of exchange can only be discharged by payment in money. Bills of exchange to the amount of millions are daily discharged without any coin whatever, just in the same manner as cheques are. A bill of exchange, on the day it matures, becomes a cheque; a cheque is nothing but a bill of exchange payable to bearer on demand. Now, let us take the case of a wholesale dealer who accepts bills to a manufacturer, and draws bills upon retail dealers. When he opens a discount account with his banker, he brings the bills he draws upon his own customers, the retail dealers, and sells them to his banker. He also makes the bills drawn upon himself payable at his bankers, and the proceeds of the bills he sold are appropriated to the

payment of the bills he has to meet. Now, he knows when the bills he has accepted fall due, and he takes care to sell some bills to his banker to meet them. The banker, as usual, buys these bills, by merely writing so many figures—so many “promises to pay”—to the credit of his customer. Now, if this banker is a member of the Clearing House, and the banker who presents his customer’s acceptances for payment, is also a member of it, they are presented through the Clearing House, and fall into the mighty mass of transactions which are settled by its means, without any intervention of coin, or Bank notes.

Now, when we see that cheques are merely substitutes for Bank notes, that in every case where a cheque now passes, Bank notes would be required if cheques had not existed; when we also see that a bill of exchange on the day it is payable becomes a cheque, which is equivalent to a Bank note, it follows very clearly that all the obligations interchanged at the Clearing House form an integral part of the circulating medium. Their being exchanged at the Clearing House can make no difference to what they would be if they were presented and paid by each banker, for they have all done their duty *before* they arrive at the Clearing House; they have caused commodities to circulate, perhaps many more times than once, before they come to be discharged.

In most country towns in England of any size similar exchanges are organized, and the differences settled by a draft on London; and in 1860 a clearing establishment was instituted in London for country bankers. All these institutions have the general tendency to constitute, as it were, all the different banks in the country one vast banking establishment to extinguish the credit created by commercial transactions, by mutual interchanges without the use of Bank notes or coin. What the economy of notes or coin may be by means of the present system of clearing, which is even yet far from complete, no one has the means of ascertaining. In the year 1839, when we may fairly say that the present banking system was in its very infancy, and there were only 29 private bankers in the Clearing House, the claims settled there amounted to £954,401,600 and these were discharged by means of £66,275,600 in Bank notes. At the present time the amount settled has multiplied many times, and no notes or coin are required. But a consideration of the details of this system will impress the reader with the truth of what we have endeavoured to explain fully in the previous volume, that a debt is in all respects an article of commerce, or merchandize. In former times money was required to adjust the balances on unequal exchanges of *commodities*; in modern times, when commodities are almost universally circulated by means of debts, and these debts are themselves articles of commerce, money and notes are chiefly required to adjust the outstanding balances on *unequal* exchanges of DEBTS.

## SECTION III.

### ON BILLS OF EXCHANGE AND PROMISSORY NOTES.

1. We propose in this Section to give only such parts of the law relating to bills of exchange and promissory notes, as it is indispensable that a banker should be familiar with in the ordinary business of banking. To give the whole law on the subject would fill a large volume, and several treatises on it exist, to which we may refer.

#### ON THE FORM OF BILLS AND NOTES.

2. A bill of exchange is a written order from one person to another person, to pay a fixed sum of money to some person named in the order.

A promissory note is a written promise given by one person to pay a fixed sum of money to some certain person, or to his order, on demand, or at sight, or at some fixed time, or to the bearer.

No particular form of words is necessary for either bills or notes. They may be written in any language, or on any substance, and in pencil as well as in ink.

It is usual, but not necessary, to write the name of the place where the bill or note is made, as well as the date; if there be no date, it will be considered as dated at the time it was made.

It is usual to write the sum for which a bill, note, or cheque is made or drawn, at full length, in the body of the instrument, as well as in figures in one corner of it. This latter, however, is held to be merely a memorandum, and if the sum stated in the body of it differ from the figures in the corner, the former is the sum for which the instrument is good.

It is also usual to state the time when the bill or note is payable in the body of it; if none be stated, it will be payable on demand.

Bills and notes must be payable at some certain time, or at some event which must certainly happen. A bill or note made payable on the happening of a contingency is invalid; as an engagement made payable on the maker's marriage is no note, because he may never marry; or an instrument made payable on the sailing of a ship is no note. But a note made payable at the maker's death is good, and by somewhat a stretch of the rule, a note made payable when a ship was paid off was held to be good.

The payee of a note must be a certain person. He need not, however, be actually named, if he be sufficiently designated. A note payable "to the trustees acting under A's will" is a good note, and evidence is admissible to shew who the trustees are,

and the nature of the trusts. On a note payable to the Manager of the National Provincial Bank of England the payee was allowed to recover in his own name.

A bill or note may be made payable to A B, or order, or drawer's own order; it is then assignable by indorsement. If it be payable to A B, or bearer, it is assignable by mere delivery.

Bills and notes must be general obligations to pay a fixed sum of money, and not any appropriations of specific funds.

If the form of the instrument be so ambiguous as to make it uncertain whether it is a bill or a note, the holder may treat it as either.

If the instrument is so irregular as to be neither a bill nor a note, it may still be evidence of an agreement.

### ON THE STAMP.

3. Inland bills and notes must be written on paper previously stamped. The Commissioners are forbidden to stamp them after they are made, as they may other agreements; and unstamped bills, notes, or drafts, are not admissible in evidence, or available at law, or in equity. But they may in criminal proceedings.

But the Commissioners may restamp any bill or note, on which a stamp of a wrong denomination has been affixed, if it be of equal or superior value to the proper stamp, on payment of a penalty of 10s., if the bill or note be not due, and of £10 if it be due.

It is also enacted, that every instrument bearing a stamp of greater value than required by law shall be valid, if of the proper denomination.

The present stamp duties on inland bills and notes are as follows:—

		Duty.		
		£	s.	d.
DRAFT OR ORDER, for the payment of any sum of money to the bearer, or to order, on demand .....		0	0	1
INLAND BILL OF EXCHANGE, Draft, or Order for the payment to the bearer, or to order, at any time, otherwise than on demand, of any sum of money				
Not exceeding .....	£5	0	0	1
Exceeding	£5 and not exceeding	10	0	2
10	25	0	0	3
25	53	0	0	6
50	75	0	0	9
75	100	0	1	0
100	200	0	2	0
200	300	0	3	0

				£	s.	d.
Exceeding	£300	and not exceeding	£400	....	0	4 0
"	400	"	"	500	....	0 5 0
"	500	"	"	750	....	0 7 6
"	750	"	"	1,000	....	0 10 0
"	1,000	"	"	1,500	....	0 15 0
"	1,500	"	"	2,000	....	1 0 0
"	2,000	"	"	3,000	....	1 10 0
"	3,000	"	"	4,000	....	2 0 0
And where the same shall exceed £4,000, then, for every £1,000, or part of £1,000, of the money thereby made payable .....						0 10 0

PROMISSORY NOTE for the payment in  
any other manner than to the bearer on  
demand, of any sum of money

Not exceeding .....	£5	....	0	0	1
Exceeding	£5 and not exceeding	10	....	0	0 2
"	10	"	"	25	.... 0 0 3
"	25	"	"	50	.... 0 0 6
"	50	"	"	75	.... 0 0 9
"	75	"	"	100	.... 0 1 0

PROMISSORY NOTE for the payment,  
either to the bearer on demand, or in any  
other manner than to the bearer on de-  
mand, of any sum of money

Exceeding	£100 and not exceeding	£200	....	0	2 0
"	200	"	"	300	.... 0 3 0
"	300	"	"	400	.... 0 4 0
"	400	"	"	500	.... 0 5 0
"	500	"	"	750	.... 0 7 6
"	750	"	"	1,000	.... 0 10 0
"	1,000	"	"	1,500	.... 0 15 0
"	1,500	"	"	2,000	.... 1 0 0
"	2,000	"	"	3,000	.... 1 10 0
"	3,000	"	"	4,000	.... 2 0 0

And where the same shall exceed £4,000,  
then, for every £1,000, or part of  
£1,000, of the money thereby made  
payable..... 0 10 0

Before this Act Foreign Bills were exempted from any stamp duty, but the enormous frauds that were perpetrated upon the revenue by persons who fabricated bills in London, purporting to be drawn abroad, compelled the Legislature to impose stamps on Foreign Bills.

The Act, Statute 1854, c. 83, provides, that certain duties



therein named should attach and be payable upon all such bills as shall be paid, indorsed, transferred, or otherwise negotiated within the United Kingdom, wheresoever the same may be payable, and that they should be denoted by adhesive stamps, to be affixed on the bill as directed.

Every bill purporting to be drawn out of the United Kingdom shall be deemed a Foreign Bill for the purposes of the Act, even though it should actually have been drawn within the Kingdom.

The holder of any Foreign Bill not having a proper adhesive stamp on it, must, before he present it for payment, or indorses, or transfers, or in any manner negotiates such bill, affix a proper adhesive stamp on it.

Whoever indorses, transfers, or negotiates such a bill, must, before he delivers it out of his hands, custody, or power, cancel the stamp so affixed, by writing thereon his name, or the name of his firm, and the date of the day and year on which he so writes the same, in order that the same may not be used again for any other purpose.

If any person presents for payment, or pays, or indorses, transfers, or negotiates any such bill whereon such adhesive stamp shall not have been duly affixed, or if any person who ought by the Act to cancel such stamp as above directed, neglects, or refuses to do so, he is liable to a penalty of £50.

No person who takes or receives from any other person any such bill as aforesaid, either in payment or security, or by purchase or otherwise, shall be entitled to recover thereon, or to make the same available for any purpose whatever, unless at the time when he shall so take or receive such bill, there is such a stamp on it as ordered, and cancelled as directed.

Any person who, within the United Kingdom, draws and issues any bill of exchange payable out of the United Kingdom, purporting to be drawn in a set, and shall not draw and issue on paper duly stamped, the whole number of bills of which the set purports to consist of; or if any person within the United Kingdom shall transfer or negotiate any such bill as aforesaid, purporting to be drawn in a set, and shall not at the same time transfer or deliver on any paper duly stamped the whole number of bills of the set, he shall forfeit £100; and if any person receives in payment, or as security, or by purchase or otherwise, any such deficient set, he shall not be entitled to recover on any such bill, or make it available for any purpose whatever.

The Stamps are as follows:

**FOREIGN BILL OF EXCHANGE** drawn in, but payable out of, the United Kingdom

If drawn singly, or otherwise than in a set of three or more, the same duty as on an Inland Bill of the same amount and tenor.

If drawn in sets of three or more, for every bill of each set—

		Duty.		
		£	s.	d.
Where the sum payable thereby shall not exceed . . . . .	£25 . . . . .	0	0	1
Where it exceeds £25 and does not exceed	50 . . . . .	0	0	2
” 50	” 75 . . . . .	0	0	3
” 75	” 100 . . . . .	0	0	4
” 100	” 200 . . . . .	0	0	8
” 200	” 300 . . . . .	0	1	0
” 300	” 400 . . . . .	0	1	4
” 400	” 500 . . . . .	0	1	8
” 500	” 750 . . . . .	0	2	6
” 750	” 1,000 . . . . .	0	3	4
” 1,000	” 1,500 . . . . .	0	5	0
” 1,500	” 2,000 . . . . .	0	6	8
” 2,000	” 3,000 . . . . .	0	10	0
” 3,000	” 4,000 . . . . .	0	13	4
” 4,000 and upwards			0	15 0

FOREIGN PROMISSORY NOTE made or purporting to be made out of the United Kingdom for the payment within the United Kingdom, of any sum of money—

The same duty as on an Inland Bill of Exchange for the payment otherwise than on demand of money of the same amount.

#### ON ACCEPTANCE.

4. The holder of an unaccepted bill should present it for acceptance as soon as possible. If the drawee refuse acceptance, the preceding parties become liable immediately.

If the holder be a mere agent, he will be liable for any loss that may occur through his negligence to present.

If the bill is payable at sight, or at any period after sight, presentment is necessary; as, if it be not made within a reasonable time, the holder will lose his remedy against preceding parties. What is a reasonable time depends upon the circumstances of each case.

Presentment for acceptance should be made during the usual hours of business; and it must be made either to the drawer himself, or to his authorized agent.

The holder, however, may put the bill into circulation without presenting it.

When the bill is presented, the drawee has the right to keep it a reasonable time, to decide whether he will accept or not; and this is usually held to be twenty-four hours.

A drawee, in general, is not liable to pay without acceptance;

but a banker is an exception to this rule. He is bound to pay all his customers' bills or cheques drawn upon him, without notice, and without acceptance, provided he has funds to meet them, as also all bills and notes that his customers make payable at his house.

The acceptance of all bills of exchange, inland as well as foreign, must be in writing on the bills, or if there is more than one part of such bill, on one of the said parts. It does not follow from this that the acceptance must be the name of the party, written at full length. His initials would appear to be sufficient, or even a mark. It may be doubtful, however, whether the Act (Statute 1856, c. 97) requiring the acceptance of foreign bills to be in writing on the bill, would apply to a foreign bill drawn and accepted abroad, where the law of the foreign country does not require the acceptance to be in writing.

One partner may bind his co-partner by acceptance; but if a bill be drawn upon several persons not in partnership, they must all accept, and if they do not it may be treated as dishonored. But it will be valid against those who do accept.

A bill may be accepted by a man's wife, if he afterwards acknowledge it. And the acceptance may be written on the blank paper, if stamped before the bill is drawn.

The drawee is not bound to accept precisely in the terms of the bill. He may make a *general* acceptance, or a *qualified* acceptance.

A *general* acceptance is an acceptance to pay according to the tenor and effect of the bill, and is usually done by writing the words "accepted," with the signature of the acceptor.

By a general acceptance, the acceptor binds himself to pay it anywhere, and at any time it may be presented to him for payment, on the day it matures, or any day afterwards. Nay, the holder of the bill is not bound to present it to him at all for payment, but may commence an action against him, without presentment, and such action is a good demand for payment. Such a course, however, would discharge all the other parties to the bill.

A *qualified* acceptance is either *conditional* or *partial*, and varying the tenor of the bill.

Thus, an acceptance to pay, "when in cash for the cargo of a ship," or any similar one, is a conditional acceptance, and is not an absolute one until the condition is fulfilled.

A partial and varying acceptance is when the drawee accepts only for part of the sum mentioned in the bill, or makes it payable at a different time.

It is very usual for men in business to make their bills payable at their banker's. It was disputed whether this was a general or a qualified acceptance. A case having been decided by the House of Lords, that it was a qualified acceptance, contrary to the usual practice and opinion of merchants, the Act,

Statute 1820, c. 78, was passed, which enacted that, if any person shall accept a bill of exchange payable at the house of a banker, or other place, without further expression in his acceptance, such acceptance shall be deemed and taken to be, to all intents and purposes, a general acceptance of such bill; but if the acceptor shall, in his acceptance, express that he accepts the bill payable at the banker's house, or other place *ONLY, and not otherwise or elsewhere*, such acceptances shall be deemed and taken to be, to all intents and purposes, a qualified acceptance of such bill; and the acceptor shall not be liable to pay the said bill, except in default of payment, when such payment shall have been first duly demanded at such banker's house, or other place.

A drawee will, however, not be liable merely by writing his name on the bill; it is essential that there be an issue or delivery of the bill to some one interested in it, or, what is equivalent to a delivery, a communication that he has so accepted it. Consequently, if the drawee change his mind after he has written his name on it, but before he has delivered it, he may cancel his acceptance.

When a drawee has once accepted a bill, and put it into circulation, his liability is irrevocable. He cannot dispute the drawer's signature, nor the payee's right to indorse, nor that he was an infant, nor that the drawer was a married woman, and he accepted the bill drawn by her without consent of her husband.

If a drawee has once admitted the acceptance to be in his handwriting, and thus given the bill currency, he cannot afterwards free himself from liability by proving that it was forged.

When a bill is accepted by a married woman, a banker should always inquire whether she has authority to do so or not; but, by the custom of London (and Bristol, we believe), a married woman may be a sole merchant, and carry on a business wholly independent of her husband, and, consequently, negotiate bills in that capacity.

A bill which is accepted, or a promissory note made, by a number of persons, "jointly and severally," is the note of all of them, or of each of them separately; but it is not the note of two or more of them, less than the whole number.

#### ALTERATION OF A BILL OR NOTE.

5. As the Stamp Laws require that the stamp be impressed upon the paper upon which a bill or note is to be written, before it is written, when it is once completed and issued, it cannot be altered in any way, even by consent of all the parties, so as to vary the original contract; because the first contract has already exhausted the stamp, and no new stamp can be impressed upon the new contract.

It may, however, be altered before it is issued or negotiated,

or attempted to be issued or negotiated, by the consent of the parties to it.

An accommodation bill is not considered as issued until it is in the hands of some person who is entitled to treat it as a security available at law.

A material alteration in a bill or note, even though it be made by a stranger, will avoid it, because the person who has the custody of it is bound to preserve it in all its integrity; and, as an alteration by himself would vitiate it, so will any alteration made through his negligence.

Thus, where a bill was drawn, payable to A B, and while in his possession the date was altered, it was held that the acceptor was discharged.

So, where the drawer, without the acceptor's consent, added the words, "Payable at Mr. B's, Chiswell Street," the acceptor was discharged. But it was held that such an alteration, being not a variation of the original contract, if made with the acceptor's consent, would not vitiate the bill. And such an alteration as this would not take away the remedy against the holder's indorser.

Where, if a bill was addressed to A B and Co., and the acceptance was by A and B, and the address was afterwards altered so as to correspond with the acceptance, it was held to be an immaterial alteration, the acceptors being liable either way.

The following alterations are material:—Any change in the date, sum, or time of payment, the insertion of words making an instrument negotiable which was not so before. Even altering the words "value received," into an expression of the particular consideration which passed, though it is difficult to see how the last can be any variation of the original contract.

An alteration made before the bill or note is negotiated, or issued, will not vitiate it.

Where a drawer of a bill payable to his own order sent it to the drawee for acceptance, who requested that the time for payment might be enlarged, which, having been consented to, and the alteration made, and the drawee then accepted it, it was held that such an alteration did not vitiate the stamp. So, where alteration was made in an accommodation bill by the parties to it, and before it had passed into the hands of a holder for value, it was held that the bill was not issued, and it was not void.

Also, if the alteration is made to rectify a mistake, and to make it what it was originally intended to be, it will not avoid it. Thus, where a drawer intending to make the instrument negotiable, accidentally omitted the words "or order," and indorsed it over, their subsequent insertion, in pursuance of the original intention, was held not to vacate the bill.

So, where a bill has been accidentally misdated, a correction of the date will not vitiate it. In one case, even where a palpable



mistake was made in dating the bill, it was allowed to be proceeded upon as if correctly dated.

And whether the alteration was intended to vary the original contract, or was the mere correction of a mistake, is a question of fact for the jury.

An alteration by the drawer, payee of the bill, does not extinguish the original debt, though it avoids the instrument. But an alteration by the indorsee not only avoids the security as against all parties, but extinguishes the debt due from the indorser to the indorsee.

No man should take a bill which has been altered, without requiring full information as to the circumstances of the alteration, because, in the event of his having to take proceedings at law against the parties to it, it will lie on him to prove that the alteration did not vitiate the instrument.

The maker of a promissory note is discharged from his liability by any alteration of the note, wherever the altered instrument, if genuine, would operate differently from the original instrument, even though it should be to his advantage.

Two persons signed a joint and several promissory note. The plaintiffs, afterwards procured another person to sign it in addition to the first two. This was held to be a material alteration discharging the original makers.

#### ON SIGNING BY PROCURATION.

6. It is very common for persons to authorize others to draw, accept, indorse, and negotiate bills for them, and such signing is called signing *by procuration*.

As the agent is the mere hand which performs the duty, persons may sign by procuration who have no capacity in their own right to contract, such as infants, married women, persons attainted, or, in fact, laboring under any disqualification.

No particular form is necessary to convey this authority, either verbal or written. But any one who takes a bill, accepted, or indorsed by procuration, is bound to make inquiry, whether or not the authority has been properly followed.

General authorities to transact business do not carry with them powers to negotiate bills; but if the principal afterwards adopts the agent's acts, it will bind him if the agent gave notice he was acting as agent.

Special authorities will be construed strictly; but if an agent has been in the habit of drawing, accepting, or indorsing for his principal, and he has adopted his agent's acts, it will render him liable.

An agent's authority will be presumed to continue until notice is given of its termination. Such notice as regards strangers must be given in the *Gazette*, and to customers and correspondents by individual communication.

An agent who wishes to avoid personal liability, must either sign his principal's name only, or expressly state on the face of the instrument that he signs it as agent. If he omits this he will be personally liable, and he only, even though the payee knew that he was only acting as agent.

Evidence cannot be received to charge a principal who is not named on the face of a bill or note; nor to discharge an agent who signs it with his own name.

Where an agent, being duly authorized, expressly states on the face of the instrument that he merely signs it by procuration for a principal, he will not be bound.

But where a bill was drawn on A B, as purser of a mining company, and he was also a partner, and he accepted it by procuration for the Company, and expressly stated at the time that he would not be personally bound by it, and it appeared afterwards that he was *not authorized to accept bills on behalf of the Company*, he was held personally liable.

#### ON THE TRANSFER OF BILLS AND NOTES.

7. A bill or note may be made payable to an individual only, and in such a case it is not a negotiable instrument, and the payee cannot transfer it to any one else.

However, it is usual to make the note payable to some person, or to his order, or to bearer. In such a case it is a negotiable instrument. The owner of it may transfer it to whom he pleases, and the transferee may sue for payment of it in *his own name*.

When such a bill or note is payable to bearer, it passes by simple delivery, like a Bank note, and no indorsement is necessary to convey a title to it, if the transferee chooses to forego the security of the transferor's liability.

When a bill or note is made payable to A B or order, it is necessary for A B to write his name on the back of it, as well as delivering it, in order to convey a title to the receiver. The *signature and delivery* constitute the indorsement.

The indorsement may either be in *blank* or *special*.

An indorsement in blank is, when the indorser simply writes his name on the back of the bill, and delivers it to the receiver.

Such an indorsement makes the bill payable to *bearer*; it becomes, in fact, like a Bank note, transferable by mere delivery.

Such is the case almost universally with bills in commerce. After the first indorsement, there is not one case, probably, in twenty thousand, where bills are not indorsed in blank. Consequently, they may legally pass through a hundred hands by mere delivery, exactly like a Bank note.

If an indorser wishes to transfer the title without incurring the liability he may indorse "*sans recours*," or, "*without recourse to me*."

However, it is not *usual* for persons to receive bills of exchange in payment without requiring the transferor to indorse them ; and the reason and object of this indorsement has been greatly misconceived by many persons who have written about the currency.

They have imagined that the indorsement was necessary to *convey a title*, but this is a profound delusion ; the receiver requires the transferor to indorse the bill, for the purpose of obtaining an additional security, in case the bill is not paid by the acceptor.

If a person takes a negotiable instrument payable to bearer *without indorsement*, it is payment ; no matter whether it be a Bank note, a bill of exchange, or any promissory note, and he has no remedy against the transferor if the instrument is not paid.

The distinction, then, very commonly made between Bank notes and bills of exchange, that one is currency, and the other is not, because one passes by delivery, and the other does not, is perfectly futile.

A *special* indorsement, or, *in full*, as it is sometimes called, specifies the person to whom the bill or note is to be paid, and may make it payable to him, or to his order and this indorsee may similarly indorse it again, either in blank, or in full, as he pleases.

The omission of the words "or order" in the special indorsement, does not prevent the indorsee indorsing it again, for he takes it with all its incidents, one of which was negotiability.

When a bill of exchange is once indorsed in blank, and becomes payable to bearer, it cannot afterwards be specially indorsed.

An indorser admits the signature and capacity of every prior party.

The indorsee has a right of action against all the parties whose names are on the bill, in case of non-acceptance or non-payment.

If, however, the payee of a bill payable to order, neglect to indorse it, the indorsee cannot sue any one but his immediate indorser in his own name.

If a person delivers a bill without indorsement, where it was intended that he should indorse it, an action lies against him for refusing to indorse, and he and his representatives may be compelled in equity to indorse.

If a bill or note made or become payable to bearer, be delivered and accepted without indorsement in exchange for goods, for money, or for other debts, and not in payment of a pre-existing debt, such a transaction is a complete purchase of the bill by the transferee, and the transferor is not liable on the instrument, or the consideration to the transferee.

But if a banker's note be taken in payment of a pre-existing debt, and on the note being duly presented, it is found that the banker has failed, the remedy on the antecedent debt revives.

But though a transferor, by delivery, does not warrant the solvency of the parties to it, he does warrant that the instrument is a *genuine* one, that it is, in fact, what it purports to be, and is not forged or fictitious. Thus, where a man transferred a bill of exchange by simple delivery, which purported to be drawn at Sierra Leone, but which was, in fact, drawn in London, and, therefore, void for want of a stamp, and it was not paid by the acceptor, he was compelled to refund payment to the vendee.

But if the transferor *knew* that the parties to the bill or note had all failed, and that it would not be paid, that would be fraud, and he would be liable to refund the money.

If a bill is only payable to order, and has not become payable to bearer by an indorsement in blank, an indorsee can have no title to it, unless the indorser had a right to indorse.

But if a bill or note is made, or has become payable to bearer, the title of the holder of it, who took it *bonâ fide*, and for value, is good against all the world, and he can enforce payment of it, from all the parties to it, even though he may have acted with negligence. Unless the negligence is so gross as to induce the jury to find it to be fraud.

If, however, the holder is merely an agent for another party, then his title can be no better than his principal's. Thus, if a man paid a note, which he had stolen, into his account at his banker's, the banker would have no title to retain it against the lawful owner, even if it was in payment of a former debt.

Even if a bill or note is improperly pledged, the pawnee may retain it, against the real owner.

Acceptances and indorsements may be made on blank paper properly stamped, and the bill afterwards drawn upon such paper will bind the acceptor or indorser to the full amount of the stamp, in the hands of a holder for value.

If the drawer refuse to accept the bill, and the holder of it indorses it, the indorsee, with notice of such fact, is held to take the bill upon the credit of his indorser only, and the antecedent parties are discharged. But, if the indorsee had no notice of the dishonour, his rights are preserved, and such dishonour is only available against the holder who committed the *laches*.

But, in the case of an over-due bill, an indorsee takes it with its equities, as it is termed. That is, he has no better title to it than his indorser, and if his immediate assignor could not have maintained an action upon it, he cannot, because the fact of its being over-due, is enough to excite suspicion.

But he will not be affected by the infirmity of the title of an original, or an antecedent party, if his immediate assignor could have maintained an action on it.

A note, payable on demand, is not considered as overdue, unless evidence is given of payment having been demanded and refused, as such notes are frequently given as continuing securities.

If a banker is banker both to the drawer and the payee of a cheque, and the payee pay in a cheque to the credit of his own account, and the banker receive it without objection, he is bound to appropriate any funds he may have of the drawer to the payment of the cheque, even though the drawer is indebted to him in a larger amount.

After a bill or note has been paid by the acceptor or maker, at maturity, or on their behalf, it is extinguished, and cannot be transferred, except promissory notes payable to bearer on demand, re-issued by the original maker having taken out a licence for that purpose. But a bill or note which is paid only by an *indorser* is not extinguished, and may be reissued even after it is due, *ad infinitum*, until it is finally extinguished.

But if a bill or note is paid *before* it is due, it is not an extinguishment of it, and it is a valid security in the hands of an indorsee for value.

If the bill is partially paid at maturity by the drawer, or any party, the holder can only sue the acceptor for the balance.

A bill or note cannot be indorsed for a part of the sum remaining due upon it, if the limitation appear on the face of the indorsement. If it is indorsed or delivered for part of the sum due on the face of it, the transferee may sue the acceptor for the whole, and holds the balance as a trustee for the transferor.

But if it has been partly paid by the acceptor or drawer, it may be specially indorsed for the sum remaining due.

All bills and notes, which pass by delivery, may be the subject of a *donatio mortis causâ*, and it is probable that the same doctrine would now be maintained with respect to all bills and notes, because the ground upon which Courts of Equity now support donations *mortis causâ* is not that complete property must pass by the delivery, but that must be so far complete as to enable a Court of Equity to complete it.\*

#### ON PAYMENT.

8. No demand of payment is necessary against the acceptor; he remains always liable to the holder. But it is necessary to charge the drawer or other parties to the bill. Such demand, however, need not be a personal demand, it is sufficient if made at his house or usual place of business, of his wife, or other agent. And when the acceptor has put a memorandum on the bill, making it payable at his banker's, or other place, demand there is sufficient to charge the drawer.

\* Williams' Law of Executors and Administrators, p. 658.



The bankruptcy or insolvency of the acceptor is not sufficient to excuse neglect of presentment for payment; as he may have other means of paying, as by the assistance of friends.

But presentment for payment is not necessary to charge a party who guarantees the payment of a bill or note.

Even if the acceptor has absconded, the holder should make some effort to find him out, and, at all events, present the bill at his house.

If he be dead, presentment should be made to his personal representatives, and if he have none, then at his house.

The custom of most countries has established that the acceptor of a bill has some days allowed him, after the bill has become due, to pay it. These are called the days of grace. In the United Kingdom the days of grace are three; consequently, a bill or note that is due on the 1st of a month is payable on the 4th.

Bills and notes may be drawn payable a certain number of days, or weeks, months, or years after date or after sight, or on a certain day, or at a certain event, or at usance, or by instalments, or at sight, or on demand.

When a bill or note is payable at, or after sight, this means acceptance, as evidence of sight. Usance means the usual time formerly appointed between different countries for the payment of bills; and differs with every country.

On all instalments the days of grace are allowed, except on bills of exchange payable on demand, which includes cheques.

It is said to be doubtful whether days of grace are allowed on bills drawn payable at sight; the better opinion seems to be that they are.\*

Bills and notes payable on demand should be presented within a reasonable time, though what is a reasonable time depends upon the peculiar circumstances of each case. With respect to bills payable on demand, including cheques, it has been decided that the holder has the whole of the day after he has received them to present them.

A bill or note upon which no time of payment is specified, is payable on demand.

If a bill or note is payable at a banker's, it must be presented within banking hours; but in other cases the rule is, that it must be presented at a reasonable hour; a presentment at eight o'clock in the evening would not be unreasonable, but one at near twelve o'clock would.

We have already seen that when a bill is accepted payable at a banker's or other place, that is, by law, to all intents and purposes, a *general* acceptance, unless it is made payable there only, and not elsewhere. It is a most important distinction between bills of exchange and promissory notes, that the Act only applies

\* Byles on Bills, p. 152 Edition, 1847.

to bills of exchange, and, consequently, if a promissory note is made payable at a particular place, presentment for payment *must be made at that place*, and, in any action on the note, presentment there must be alleged and proved.

Some think that if a particular place is named by the acceptor, at which the bill is payable, that presentment there is necessary to charge the *drawer*. We venture to think, however, that this is hardly consistent with the words of the Act, for it expressly says that such an acceptance is a general one, *to all intents and purposes*, and surely one of these intents and purposes is to charge the drawer in case of non-payment.

If the bill or note be not duly presented for payment, all the antecedent parties are discharged from liability, either on the note, or on the consideration.

A declaration beforehand by the acceptor, that he will not pay, even made in the presence of the drawer, will not excuse want of presentment, and notice of dishonor to the drawer.

If any antecedent party *knowing that laches have been committed*, nevertheless promises to pay, or makes, or promises to make, a partial payment on account, it will be a good consideration to charge him with the whole, for, like the Statute of Limitations, such irregularity does not *destroy the debt*, but only *bars the remedy*, and, consequently, a voluntary reassumption of the liability is good, without a fresh consideration.

If a bill or note is made payable to *bearer*, or has become so by indorsement in blank, payment by the acceptor to the bearer will discharge the acceptor, even if he pay it to the thief or finder. And a *bonâ fide* holder for value may compel payment of such an instrument. But if the payer knew the infirmity of the bearer's title, such a payment will be a fraud, and will not discharge him.

We have seen that a person honestly discounting, or buying, a bill or note, is entitled to keep it, even if there be negligence, and a similar analogy would seem to hold good regarding his paying it.

But if such a payment be made out of the usual course of business, and under circumstances evidently suspicious, the payer will not be discharged.

Thus, if a person finds a cheque torn in pieces by the drawer before circulation, and pastes the pieces together, and presents it for payment, and the banker pays it, he is held to be guilty of such negligence that he cannot charge his customer with the amount.

If the bill or note be *not* payable to bearer, but only transferable by indorsement, the payer will not be discharged by paying a wrong party.

A bill is not finally extinguished until paid by, or on behalf of, the *acceptor*, or a note until paid by, or on behalf of, the maker.

If the *acceptor* retires the bill at maturity, it is taken out of circulation altogether; but, if an *indorser* retires it, he merely withdraws it as far as he is concerned, and may hold it with the same remedies as if he had paid the amount in due course to his indorsee.

The acceptor of a bill, or the maker of a note, should pay it on demand at any time, within business hours, on the day it is payable. If he refuses to do so, the holder may immediately treat it as dishonored; but he has the whole of the day to make the payment, and even if he refuses to do so, and pay it afterwards, such payment will be good.

If the holder of a bill or note constitute any one of the parties on it liable to him his executor, and dies before it becomes due, it is a release of the debt, for no man can sue himself.

As the essential requisite of a bill or note is that it should be payable in *cash*, so every holder is entitled to have it paid in nothing but *money*. When the bill is paid, the payer is entitled to have it delivered up to him.

In the general prevalence of keeping banking accounts at present, payment of a bill or note is often offered in cheques, but in such a case the bill should never be delivered up, until the cheque is paid. For if it is given up, and the cheque is unpaid, the holder has no remedy against the drawer and indorsers, for they are entitled to receive the bill on paying it.

And an agent who delivered up a bill on receiving a cheque for it, would be liable to his principal in the event of the cheque being dishonored, and the remedy lost against the other parties. Although in one case it was held that an agent was justified by the usage of trade in doing so. But we cannot think that would be held to be law at the present day.

Where a banker holds a balance of his customer, and the latter becomes indebted to him, on several insulated debts, as, for instance, on several unpaid bills of exchange, he may appropriate the balance towards the payment of such bills as he pleases.

If a drawee discover that a bill or cheque is forged, it does not appear that he can recover back the money.

#### UPON NOTICE OF DISHONOR.

9. The holder of a bill which is refused acceptance, or payment, must give notice of the dishonor to the antecedent parties, or he loses his remedy against them.

Two things are legally necessary to constitute a due notice of dishonor; first, a notification of the fact of dishonor; and secondly, a demand of payment.

No particular form of words is necessary, and it may either be written or verbal; but, if either of the two points mentioned above are omitted, it is no due notice, and the parties are dis-

charged. The notice should also specify the bill, so that it cannot be mistaken for any other.

A stringent decision in the House of Lords, *Solarte v. Palmer*, has rendered it necessary to pay much attention to the form of notice. Many notices have been held insufficient. Thus, the following was held insufficient:—

“MR. MAINE: Sir,—This is to give you notice, that a bill drawn by you, and accepted by Josia Bateman, for £47 16s. 9d., due July 19, 1835, is unpaid, and lies due at Mr. J. Furze’s, 65, Fleet Street.”

The following was held sufficient:—

“SIR,—The bill for £———, drawn by you, is this day returned with charges, to which your immediate attention is requested.”

The following form of giving notice might be adopted by an indorsee to his indorser, and altered if necessary:—

“London,                      186

“SIR,—The bill of exchange for £———, dated ———, drawn by A. B., of ———, upon C. D., of ———, payable——— months after date, to A B, or order, and indorsed by you, has been duly presented for payment, and has been returned dishonored, and is now unpaid. I request you to pay me the amount of it forthwith.”

If the instrument is so irregularly drawn as to make it uncertain whether it is a bill or note, it may be described as either in the notice. But it must be described so that the defendant shall be able to identify it, and not be able to confound it with some other bill. Thus, a notice to an indorser, who is not also the drawer, that a bill drawn by him lies dishonored, is not good.

The best way of sending notice of dishonor is by the Post Office, which, being a public office, any miscarriage by it will not prejudice the sender.

The letter must be addressed particularly to the drawer if he reside in a large town; unless, indeed, he has himself dated it only generally.

It is essential to be able to prove that the letter of notice has been posted, consequently, the messenger who takes it should always be required to examine the letters sent, and certify with his initials that he has duly posted them.

But, though sending a letter by the post is the more usual way of giving notice, sending a clerk, or special messenger, if the parties live in the same town, is equally good; and a message sent to a counting-house within the usual hours of business, is sufficient, even though there is no one within, as it is the duty of the merchant or trader to have some one in attendance.

Notice of dishonor must be sent within a reasonable time, and a reasonable time is held to be by the post of the next day after the dishonor, when the parties live in different towns. When they live in the same town, it must be given *in time to be received* the day after the dishonor. Therefore, when the parties live in London, and the notice is sent through the local post, it must be posted in time to be *delivered* the next day.

As the acceptor has the whole of the third day of grace to pay the bill in, even though the demand should be made in the morning, it is not usual to send out the notice the day of the dishonor.

If the parties live in different towns, the notice must be posted in time to go by the post of the succeeding day, and if there be two mails between the towns, so that being posted too late by the evening mail of the day it ought to go, it still goes by the morning mail of the next, and is received in the same day as it ought to have been, that is not sufficient.

The holder of a bill in London, which was dishonored, sent notice of dishonor to Liverpool, where the drawer and indorser resided. It was the messenger's duty to post the letters in the General Post Office, or its branch in Lombard Street; and if the letter had been posted in either of them, it would have gone that night, and been delivered in Liverpool the next morning. It was perfectly well known in Liverpool that the acceptors of the bill had failed, and that it would not be paid; and the drawer of it brought the amount to the indorser on the morning when notice of dishonor was expected. The indorser, however, did not receive notice by that post, and refused to receive the funds from the drawer. The fact turned out to be, that the messenger, instead of posting the letter in the chief office, had posted it in the Cornhill branch, and it was too late to go by that night's post. It went, however, next morning, and reached Liverpool the same afternoon, but this was held not sufficient, and the holder lost his remedy against the other parties.

When there are several parties on a bill, each has a similar time of one day, to give notice to the parties antecedent to him.

And where a banker or other agent holds a bill, for the purpose of collection, he has a day to give notice to his customer, and his customer another day to give notice to the preceding parties.

Where a bill passes through several branch banks of the same establishment, each branch is to be considered as a separate holder, entitled to receive and transmit notice.

When the last day of grace falls on Sunday, Christmas Day, or Good Friday, the bill is payable on the preceding day; but, if a man receive notice of dishonor on such a day, it is not to be reckoned in computing time in which notice is to be given, as he is not bound to open letters on such a day.



Notice of dishonor must be given by some party to the bill, or his agent, and not by a stranger. And even a party to it, who is not in a condition to maintain an action upon it, cannot give notice. Thus, a notice by a first indorsee, who had not himself received notice from the second indorsee, and was, therefore, exonerated from liability, was of no avail, as between the second indorsee and the drawer. Nor can any party to the bill, who has been discharged by *laches*, give notice.

But a notice by the holder, or by a person who may be sued, and may himself sue, will be sufficient on behalf of all antecedent or subsequent parties. Thus, a notice by the holder to the drawer, will operate as a notice from each indorser to the drawer; or if any indorser has duly received notice, notice given by him to the drawer will be equally in favor of all parties.

An agent for any of the parties entitled to give notice, such as his banker or attorney, may also give notice.

In all cases, it is better for the holder to give notice to all parties on the bill, where he can do so. In many cases, where there are several indorsements on the bill, it is common to send notice only to the last indorser, enclosing him notices to be transmitted to the previous parties. But if the last indorser neglects to do so, they are discharged.

When there are several indorseees, the *laches* of one will discharge all the prior parties.

If the drawer of a bill become bankrupt, he is still entitled to notice. And if he have absconded, notice should be given to the person in charge of the estate. If he be dead, notice should be given to his personal representatives.

If parties are jointly liable on a bill, notice to one is sufficient.

We have already seen that a person who transfers by mere delivery a negotiable instrument payable to bearer for value, is not liable on it in case of non-payment, nor upon the consideration, consequently, he does not require notice of dishonor. But if it be given in payment of a pre-existing debt, he will, in general, continue liable on the consideration, if due notice of the dishonor be given him.

It is necessary, for the convenience of merchants, that the rule regarding notice of dishonor should be extremely strict; but there are some cases where notice may be dispensed with or waived, as where the drawer promised the holder, some days before the bill became due, to call and see if the bill had been paid by the acceptor, he was held to have dispensed with notice. But the cases on the subject are conflicting, and it is much better in all cases to give notice.

Delay of notice is excusable where the indorser is himself to blame. Thus, it is a very common practice for persons to indorse bills without giving their place of residence. In such cases, the holder may have a dishonored bill with several

indorsements upon it, and he may not be able to find out their addresses immediately. If he uses reasonable diligence to discover the residence of the indorser, and gives notice of dishonor as soon as he discovers it, that is due notice of dishonor within the usage and custom of merchants. After the residence of the party is discovered, the holder has the same time to give notice as he would have had at first.

The death or dangerous illness of the holder, or his agent, may excuse want of notice.

The death, bankruptcy, or insolvency of the drawer, however notorious, is no excuse of neglect of notice.

Notice of dishonor need not be given to the indorser of a promissory note not negotiable.

In the case of an accommodation bill accepted by the drawee for the accommodation of the drawer, as it is the legal duty of the latter to provide the funds to meet it, he is not entitled to notice of dishonor.

#### ON ACCEPTANCE AND PAYMENT SUPRA PROTEST, OR FOR HONOR.

10. Protest for non-acceptance, or non-payment, is in complete disuse for inland bills; but it is necessary for foreign bills. Protest, however, is not necessary on a foreign promissory note. But sometimes, where acceptance or payment is refused, another party may accept, or pay it for the honor of the acceptor, or of some other party on the bill. In such cases a protest is necessary, as it can only be done after protest for dishonor. Such an acceptance or payment is said to be *supra protest*, or for honor.

The holder of a bill which has been refused acceptance by the drawer, but who is offered an acceptance for the honor of some other party on it, must have it first protested, and then it may be accepted for honor. He must present it for payment at maturity in the usual way, for the drawee may change his intention and pay it. If he does not, it must be again protested for non-payment, and then presented for payment to the acceptor *supra protest*.

The acceptor *supra protest* has his remedy against the party for whose honor he accepts, and all parties antecedent to him, for any damages he may suffer by paying the bill.

Upon protest for non-payment of a bill, any person may pay it for the honor of any other parties, and has a right of action against the party for whom the payment is made, and all others whom that one could have sued, but others are discharged.

But a simple course, with respect to inland bills, is simply to pay the bill generally, and then the payer becomes an indorsee, and retains his rights against all the indorsers.

And this is the proper course to follow with regard to promis-

sory notes, because the Law Merchant does not recognize payment *supra protest* upon them, but only on bills of exchange.

#### ON LOST AND DESTROYED BILLS AND NOTES.

11. The finder, or the thief, of a bill or note acquires no property in it, so as to enable him to sue upon it, or retain it from the rightful owner; but if it be transferable by delivery, and he passes it away for value, his transferee, if he took it *bonâ fide*, is entitled to retain it, and compel payment from all parties to it.

The loser should immediately give notice to the parties on the bill, for they will make inquiry of the party presenting it for payment. He should also advertise its loss, and circulate notice of it among all bankers and bill brokers, in case it may be offered them for discount.

The question has been recently tried twice—whether, if notices have been duly served upon foreign money changers that Bank of England notes have been stolen, and they afterwards, in the ordinary course of their business, cash them *bonâ fide*, they can recover their value from the Bank of England. In each case it was proved that notice had been duly served. The juries, however, gave exactly opposite verdicts in the two cases—one for, and the other against, the plaintiff. Such is the glorious uncertainty of juries! The Court in *Bane* decided that the former view is correct, and that the amount may be recovered. *Raphael v. Bank of England*. 25, *L.J.C.P.*, 33.

Though the holder may have lost or destroyed a bill, he must still demand payment from the drawee at maturity; and give notice of dishonor, for the bill may still be paid with or without an indemnity.

If a bill or note is proved to have been *destroyed*, it was formerly held that the holder might recover at law, by giving secondary evidence of its contents. This decision, however, was overruled, and it was settled that the owner of a *destroyed* bill or note, if negotiable, could neither recover *at law* against the other parties, nor could he even sue on the consideration. But this has been changed by a recent Statute, quoted below.

But if a bill, or note, or cheque, made or become payable to bearer, be *lost*, the owner cannot bring any action against any of the parties to it, either on the instrument itself, or on the consideration; for it may have got into the hands of a *bonâ fide* holder for value, who is entitled to enforce payment of it from the parties liable.

But if the bill or note be *not negotiable*, or *only transferable by indorsement*, then, as the acceptor cannot be prejudiced by payment to the real owner, an action will lie.

However, in case of a bill or note being lost, the Statute

1698, c. 14, s. 3, enacts, that in case any inland bill of exchange, payable at any certain number of days, weeks, or months, after date, be lost within the time limited for payment thereof, the drawer of the bill shall be obliged to give another bill of the same tenor and effect as the lost bill, upon receiving a security from the person he gives it to, to indemnify him against all consequences of the bill being found again.

The remedy in this case must be sought for in a court of equity; a court of law having no power to compel a man to do anything. And the courts of equity have given a most sweeping extension of the words of the Statute; for they stretch its words to include all bills, and all parties to a bill; not only bills, but notes, after they are due, as well as before; and not only new bills or notes may be required, but payment. In all cases, however, with a satisfactory indemnity.

By Act, however, Statute 1854, c. 125, s. 87, in case of any action founded upon a bill of exchange, or other negotiable instrument, the Court, or a Judge, has power to order that the loss of such instrument shall not be set up, provided an indemnity is given, to the satisfaction of the Court, or Judge, or a Master, against the claims of any other person upon such negotiable instrument.

If a bill or note be lost in transmission by the post, or by any mode which the *creditor* directs, the loss will fall upon him.

#### ON THE ORDER OF LIABILITY OF THE PARTIES ON A BILL OR NOTE.

12. The parties on a bill are *never*, and the parties on a note are very frequently not, liable in an equal degree.

On a bill of exchange, the acceptor is the principal debtor, liable always, and in any case, to the holder; the drawers and indorsers are only sureties, liable to pay only on certain conditions; and a discharge to the principal is, in all cases, a discharge to the sureties.

And each party in succession is a principal debtor to the holder, and the subsequent parties are his sureties; consequently, a discharge to any party is a discharge to all subsequent parties; but a discharge to a surety is no discharge to a principal.

Thus, the acceptor is the principal debtor to the holder, and the drawer and indorser are his sureties. Between the holder and the drawer, the drawer is the principal debtor, and the indorsers are his sureties; so, between the holder and the first indorser, the latter is the principal debtor, and the other indorsers are his sureties; and so on in succession.

Where the payee is a different person from the drawer, he stands in the position of first indorsee to a bill payable to drawer's order.

The maker and indorsers of a note stand in the same order as the acceptor and indorsers of a bill.

In a joint and several note, it frequently happens that one party is really the principal, and the other the surety. Evidence of this will be received in equity, to prove that time given to the principal will discharge the surety; but not at law.

An agreement to give the acceptor time to pay, without consent of all the sureties, will discharge them.

Such an agreement must not be an agreement in the ordinary colloquial sense of the word, but a *legal* agreement, founded upon a good consideration, and binding in law.

Hence, a mere forbearance to sue, or a *promise* not to sue or press him, is no discharge to the sureties, because such a promise is a mere *nudum pactum*, revocable at will.

But if the holder *contract* to destroy or suspend his remedy against the acceptor, all the sureties are discharged, unless the agreement contain a stipulation that the holder shall, on default, have judgment at as early a period, as if hostile proceedings had been commenced.

Or, even where the promise is made to a third party, it must be such as will satisfy the Statute of Frauds. Thus, where the executrix of an acceptor verbally promised the creditor to be answerable for the debt herself, if he would forbear to sue, and he did not sue, it was held that the drawer was not discharged, because the promise should have been in writing.

Taking a new bill from the acceptor, payable at a future day, without consent of the drawers, discharges the sureties; but it will not do so if merely taken as a collateral security; nor will taking other and further security release the sureties, if expressed to be for that purpose, and not in lieu of the first liability.

Part payment by the principal, or by the surety, is no discharge of the latter; nor will taking a warrant of attorney from the acceptor, payment by instalments, provided the payment of the last instalment be not delayed beyond the time when execution might have been had in the regular course of the action.

If the holder voluntarily receives a composition from the acceptor, without the permission of the sureties, they will be discharged: but if the acceptor is bankrupt or insolvent, and discharged under the Insolvent Act, he may recover the balance from the sureties.

Although the surety is discharged by any indulgence to the acceptor, yet, if he afterwards expressly assent, with a full knowledge of facts, to what has been done, either by word or acts, it is a waiver of his discharge, and his liability will continue, even though he should have mistaken the law.

When a bill is accepted for the accommodation of a drawer, he is not entitled to notice of dishonor.



# FORGERY OF BILLS AND NOTES.

13. Forgery is defined to be the making, or altering, any writing with intent to defraud; and the forgery of bills or notes, or of any part of them, and uttering them, when forged, are felonies.

Forgery is of several descriptions. It may be writing the name of an existing person; or it may be the misapplication of a genuine signature.

Thus, where a man, having obtained the genuine signature of Thomas Gibson (before the Stamp Act), wrote above it, a promissory note for £6,400, he was convicted of forging the note; and where the same prisoner, having got the genuine signature of another person, wrote on the other side of the paper a promissory note payable to that person, making the signature appear to be an indorsement, he was convicted of forging the indorsement.

Fraudulently obliterating or altering the crossing of a cheque is felony.

Fraudulently signing a bill or note by procuration for any other person, or otherwise, without lawful authority, or knowingly uttering the same, is felony.

Inducing a person, by violence or threats, to execute a bill, note, or other valuable security, is felony.

Inducing a person, by false pretences, to sign a bill or note, or to destroy the instrument, wholly or partially, is a misdemeanour.

It is a very common practice for persons to draw bills in the names of fictitious persons, and discount them with their bankers. This offence is forgery.

It is forgery for a man to write his own name with the intention that it should pass as the signature of some one else.

So every fraudulent alteration, whether by subtraction, addition, or substitution, is forgery.

Uttering an instrument is parting with it, or tendering it, or offering it for value.

When a bill or note has come into possession of the holder, through a forgery, he cannot recover upon it, or even retain it. And if an acceptor, or maker, pays the holder who derives his title through a forgery, that will not discharge him.

The vendee of a forged bill is entitled to demand back the money from the vendor, unless there is a negligence on his part. But the acceptor of a bill is bound to know the drawer's handwriting; and so, bankers are bound to know their customers' signatures; and it is a doubtful point whether they can recover the money paid upon a forged signature of their customers upon a bill.

These seem to be the chief points of the law of bills and notes, which occur in daily practice, and are most necessary to be known. Other proceedings upon such instruments will be in charge of the banker's solicitor, and for which we must refer to the larger treatises on the subject.



CHAPTER XIV.

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ON THE RISE AND PROGRESS OF  
JOINT STOCK BANKING IN ENGLAND.



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### ON THE RISE AND PROGRESS OF JOINT STOCK BANKING IN ENGLAND.

ACT OF 1826 PERMITTING JOINT STOCK BANKS OF ISSUE SIXTY-FIVE MILES FROM LONDON—JOINT STOCK BANKS NOT ISSUING NOTES HELD TO BE NO INFRINGEMENT OF THE BANK CHARTER—TOTAL REPEAL IN 1857 OF SIR ROBERT PEELE'S JOINT STOCK BANKING ACT OF 1844—THE PRINCIPLE OF LIMITED LIABILITY EXTENDED TO BANKS IN 1858—CONCLUSION.

1. It is very commonly supposed that Joint Stock Banks were not permitted by law in England before 1826, nor in the metropolis till 1833, but the preceding narrative shews that this idea is incorrect. By the common law, Joint Stock Companies of all sorts, including, of course, banks, are perfectly legal, and, consequently, if we wish to have a correct idea of the matter, we must observe this, and then ascertain what changes and modifications were made in the common law by successive Acts of Parliament.

2. Although the first joint stock mania in England took place in 1694, no one at that time thought of getting up a joint stock bank, in fact, joint stock bank shares are the very last thing any one would think of getting up as a mere speculation. When the Bank of England was founded, it received no monopoly in its favor, and it was only in 1697, after the disastrous failure of the Land Bank Scheme, and the ruin of public credit, that the Bank was enabled to obtain a monopoly. But even that did not affect the common law right to establish such institutions, it only said that no rival bank should be erected or countenanced by Parliament. None, however, were formed; but, in 1708, another Company began doing banking business by issuing notes. The Bank then, in 1709, obtained the clause in the Act of that year, prohibiting any company of persons exceeding six in number from "borrowing, owing, or taking up money on their bills, or notes payable to bearer on demand," which, we have shewn, was the well understood meaning of the word "banking" at that time. This clause was effectual up to 1742, when, in the Act of that year, it was re-enacted in much more full and explicit terms. But still the restriction was confined to borrowing, or owing, money on their bills, or notes. Consequently the new method subsequently introduced of creating



liabilities by means of entries and cheques, which was borrowed from the Dutch by our bankers, was not affected by the restrictive words of the Act. As soon, therefore, as the London bankers discontinued their issues of notes, and adopted entries and cheques, there was no law whatever to prevent joint stock banks being formed, and carried on by that method. This, however, completely escaped observation, and we can have very little doubt that if this flaw in the monopoly had been discovered, and an attempt made to take advantage of it, Parliament would immediately have put it down, as there can be no possible doubt but that it was their manifest intention to create a complete and effectual monopoly on behalf of the Bank, and protect it from any rival banks of any sort whatever. The effects of this monopoly, however, were most disastrous. Bank of England notes had no circulation beyond London, and it would not establish any branches in the country. No other powerful and wealthy banks could be formed, the consequence was, that when enterprise awoke in the country in the last quarter of the last century, and there was a great demand for an increased currency, all sorts of petty tradesmen in all directions, grocers, linen-drappers, cheesemongers, tailors, &c., started up, and turned "bankers," *i. e.*, issuers of promissory notes, so much so, that in 1793 there were about 400 of these country "bankers." But, of course, this paper currency was of a most rotten description, and on the occasion of any great commercial crisis they failed by dozens. In the great crisis of 1793 no less than 100 stopped payment, and double that number were greatly shaken. In 1810 about a similar number stopped, a great number in 1812, and in the three years, 1814-15-16, ninety-two commissions in bankruptcy were issued against banks, and, allowing the usual proportion of four suspensions to one bankruptcy, in those three years alone about 360 banks stopped. In twenty-eight years, from 1791 to 1818, the official return shews that 273 commissions were issued against bankers, or we may fairly assume that upwards of 1,000 banks stopped payment during that period. The intolerable hardship of the monopoly of the Bank Charter may be conceived, when the Bank, doing no business itself at such places as Bristol or Liverpool, no powerful bank could be formed at these places on account of it. These enormous failures among the country bankers, spreading ruin and desolation throughout whole districts of territory, naturally turned public attention to the Scotch system of banking, where, with the single exception of the Ayr Bank, there had been no failure of a joint stock bank. Mr. Joplin is the earliest person that we are aware of, who discovered that the Charter of the Bank of England did not prevent banking companies being formed which did not issue notes. In a pamphlet, entitled *Supplementary Observations to the Third Edition of an Essay on*

*Banking, &c.*, 1823, he says, p. 84 :—"That public banks have not hitherto existed, more especially in London and Lancashire, seems to have risen from the want of a proper knowledge of the principles of banking, rather than from the Charter of the Bank of England, *which, I find, does not prevent public banks for the deposit of capital from being established* \* \* \* That banks ought to be the permanent depositories of the capital of the country, is an idea which no writer has hitherto entertained, and the silent operations of the Scotch banks have eluded observation. It has, in fact, always been hitherto considered, *that the proper business of a bank was to issue notes and discount bills at short dates.* This is very strikingly exemplified by the clause in the charter of the Bank of England, which restricts other banks to six partners." (Mr. Joplin then quotes the clause, and says,) "It is quite evident that the framers of the above clause considered the business pursued by the Bank of England the only proper banking. It appeared to them that preventing banks with more than six partners from issuing bills at short dates, or notes payable on demand, was altogether conferring on the Bank the privilege of exclusive banking as a public company. *This it did no doubt, according to their definition of the term, but it still leaves the most important part of banking open to the public. There is at this moment no legal impediment to the establishment of joint stock companies for trading in real capital.* Both the letter and the spirit of the Charter has reference to the circulation of bills and notes alone. A bank which traded only in capital would not in the least touch upon the monopoly of the Bank of England, nor be any infringement of its charter." Thus Mr. Joplin has, as far as we are aware, the merit of perceiving the loophole in the Act, by means of which, ten years later, the first joint stock bank was established in London.

3. An attempt in 1823 to gain the consent of the Bank of England to give up the privileges of their Charter, so far as to permit joint stock banks to be formed in the country, having failed, even though a bribe was offered, nothing further took place till 1826, when the disasters of the preceding year being very generally attributed to the improper management of the country banks, the Ministry were powerful enough to compel the Bank to give up its unjustifiable monopoly, and at length agreed to permit joint stock banks to be formed beyond sixty-five miles from the metropolis. The Statute 1826, c. 46, was passed for this purpose. Its chief provisions are:—

I. That banks of an unlimited number of partners may be formed, and carry on all descriptions of banking business by issuing notes and bills payable on demand, or otherwise, provided that such corporations or partnerships should not have any house

of business or establishment as bankers in London, or at any place within sixty-five miles of London; and that each member of such corporation, or partnership, should be liable for all its debts of every description, contracted while he was a partner, or which fell due after he became a partner.

II. No such banking company was to issue or re-issue, either directly or indirectly, within the prescribed distance, any bill or note payable to bearer on demand, or any bank-post bill, nor draw upon its London agents any bill of exchange payable on demand, or for any less sum than £50, but they might draw any bill for any sum of £50 or upwards, payable in London or elsewhere, at any period after date, or after sight.

III. Such banking companies were expressly forbidden, by themselves or their agents, to borrow, owe, or take up in London, or at any place within sixty-five miles of London, any sum of money on any of their bills or notes payable on demand, on at any less time than six months from the borrowing thereof, but they might discount in London, or elsewhere, any bill or bills of exchange, not drawn by, or upon, themselves, or by, or upon, any person on their behalf.

IV. Before such a company began business, they were to make a return of the names and addresses of all their partners, and places for carrying on business, and the names of two or more of their partners, being resident in England, who were to be appointed public officers, and in whose names the company were to sue and be sued, which return was to be verified by oath. And they were required to make returns of all changes in their body.

V. That all proceedings at law and in equity, civil and criminal, should be taken by and against the public officers of the company. All decrees and judgments obtained against such public officers should be valid against all and every member of the company; and execution upon a judgment against the public officer might be issued against any member of the company. But that every such public officer or person, against whom such execution was issued, should be fully indemnified by the other members of the company; but that no execution should issue against any person, more than three years after he had ceased to be a partner.

VI. The Bank of England was authorised to establish branches at any place in England.

VII. Such banking companies might issue unstamped notes upon giving certain securities to the Crown, to make true returns of the amount of their issues, and to pay the amount of stamp duty on them; and they were not obliged to take out more than four licenses for issuing notes in different places. For any breach of these provisions in neglecting to send returns, the penalty was £500 per week, and various penalties were exacted for false returns. And every breach of the provisions relating

to their banking business subjected the company to a penalty of £50.

VIII. The rights and privileges of the Bank of England were to remain intact and unaltered, except so far as varied by that Act.

4. Subject to these restrictions upon their business, this Act made no provisions regarding the constitution or capital of these companies. Each one was allowed to devise a constitution for itself, to name its own capital, and to make any public announcement regarding it that it pleased. The formation of joint stock banks under this Act proceeded very slowly at first, not more than four or five being formed in as many years. In fact, such banks could only be successfully formed by influential persons, and, of course, each of these had already his own bank, which he would naturally be unwilling to injure by the formation of so powerful a rival. The first joint stock bank was formed at Lancaster, the next at Bradford, and another at Norwich, before any one was formed at one of the great manufacturing towns. It was not till the prosperous years of 1833-34-35-36, that any very remarkable increase took place in their numbers. In these years, however, they multiplied rapidly, more especially in 1836, when upwards of forty were established in the spring.

5. On the renewal of the Bank Charter in 1833, it was determined to take off the vexatious restriction of preventing banking companies making their bills and notes for less than £50, payable on demand by their agents in London. And they were required to keep weekly accounts, to be verified on oath, of the amount of their notes in circulation, and make a return to the Commissioners of Stamps of the average amount in circulation every quarter.

6. It was at this time, as we have already noticed, that the discovery made in 1822 by Mr. Joplin, that the Bank Charter did not prohibit joint stock banks being formed in London, and carrying on their business on the method then adopted by the London Bankers, attracted attention, and, on the case being submitted to the law officers of the Crown, they confirmed this view. The flank of the monopoly of the Bank of England, as we may say, being turned in this extraordinary and unexpected manner, excited much consternation and alarm in that body, and they requested to have this omission rectified, but Lord Althorp decidedly refused anything of the sort, and told them that the bargain was that their privileges should remain as they were, and he would not consent to any extension of them. To remove all possible doubts on the subject, a declaratory clause was inserted in the Bank Charter Act, expressly permitting joint stock

banks to be formed, provided they did not borrow, or take up in England, any sum or sums of money, on their bills or notes payable on demand, or at any less time than six months from the borrowing thereof. This declaratory clause was not long in being acted upon; and soon after the Act was passed, measures were taken to constitute a joint stock bank in London. This was the London and Westminster Bank, which has since been managed with such distinguished success.

7. The enormous difficulties which must have attended the successful organisation of this great establishment may be conceived when we remember that it was not formed under the Joint Stock Banking Act at all, which had no force within sixty-five miles of London, but that it was nothing but an ordinary partnership at common law. One of the least of the inconveniences of this was that it could not maintain an action at law for the most trivial debt, without enumerating all and each of the partners, and the slightest mistake in the spelling of a single name would at that time have vitiated any proceeding. This bank was the largest common law partnership which has existed in England; and all the London joint stock banks which were formed before the Act, Statute 1844, c. 113, are nothing but common law partnerships. The excessive inconvenience attending this state of things, led to a bill being brought into Parliament to enable the London and Westminster Bank to sue and be sued in the name of its chairman. This was warmly opposed by the Bank of England, and by Lord Althorp. Nothing could be more paltry than the reasons alleged by him in opposition to it, but he was beaten by a majority of 141 to 35. The Government, however, had influence enough to have the bill thrown out in the Lords. The Bank being thus defeated, adopted the plan of making all contracts through the medium of trustees, and all the London joint stock banks had to adopt this plan, till the Joint Stock Banking Act of 1844. The other banks formed on a similar plan to the London and Westminster are, the London Joint Stock Bank, founded in 1836; the Union Bank, in 1839; the London and County Bank, in 1839; and the Commercial Bank, in 1840, which afterwards wound up its business.

8. When the London and Westminster Bank was founded, it applied to have a drawing account at the Bank of England, and to be admitted to the Clearing House, and both requests were refused.

9. A question, however, of very much greater importance soon arose. It was a settled question, that no partnership or corporation consisting of more than six persons could accept



bills, at any less date than six months, no matter whether they were a banking partnership or any other. It was clear, therefore, that the bank could not itself directly accept bills. But it did not appear that the words of the Act prohibited *trustees* accepting bills for a less date, on behalf of the company. Nor, if trustees could accept, was there anything to prevent them accepting by procuration. Consequently, there appeared to be this method open, of circumventing the monopoly of the Bank of England. On the 21st of February, 1835, the Bank of St. Albans drew a bill for £25 upon the London and Westminster Bank, payable 21 days after date; which, on the 23rd, was presented for acceptance at the London and Westminster Bank, and was accepted in the following form:—

Accepted,  
At 36, Throgmorton-st., per procuration of  
the trustees of the London and Westminster Bank.  
J. W. GILBART, *Manager*.

10. The Bank of England moved for an injunction to restrain the Bank from accepting bills in this form, and, the case having been argued, the Court of Common Pleas held that it was an infraction of the Bank Charter Act of 1833, and the other Acts then in force respecting the Bank of England. Accordingly, the Master of the Rolls granted an injunction, restraining them from accepting bills at less than six months' date. The only result was, that the Bank paid the bills drawn upon it, without acceptance. The London and Westminster Bank being defeated in this manner, the London Joint Stock entered the lists against the Bank of England in another form. It agreed with a bank in Canada, that the latter might draw upon Mr. George Pollard, who might accept in his own name, and the London Bank agreed to find the funds to meet Mr. Pollard's acceptances, and such transactions were to be matters of account between the two banks. Mr. Pollard was not a shareholder in the London Bank; but he was their manager, and the transaction was substantially an acceptance by the bank. The House of Lords, however, declared this ingenious device to be illegal, as it was merely doing indirectly, what they were forbidden to do directly. Thus ended the attempts of the London joint stock banks to free themselves from this monstrous oppression, from which they were not relieved till the Act of 1844.

11. It was always held at common law, that a man could not sue himself. Consequently, if the same individual was member of two partnerships, they could not go to law against each other. The consequence of this was, that no partnership could sue one of its members, or *vice versâ*, and if the same person had shares in two different banks, they could not have sued each other for any demands, or debts. The Statute 1838, c. 96, was

passed to remedy this anomalous state of matters ; it enacted that a banking company might sue, or be sued, by any of its members, exactly as if they were separate individuals ; and by the Statute 1840, c. 111, this was extended to criminal cases, so that if a member of such a banking partnership steals or embezzles any property belonging to it, of any description, or shall commit any offence against it, he may be indicted, and convicted exactly as if he were a stranger.

12. It being unlawful for spiritual persons to engage in any trading concerns, and such partnerships of which any of its members were spiritual persons, being held to be void and illegal, it was suddenly found that most of the banking companies in England were illegal, and all their contracts void, because some of their shareholders were clergymen. The Act, Statute 1841, c. 14, was passed to remedy this, and declared that such partnerships should not be illegal and void ; and that their contracts should not be illegal and void, although some of their shareholders were clergymen.

13. When the impediments to the formation of joint stock banks beyond sixty-five miles from London were removed in 1826, they were left perfectly free as to the provisions of their deeds of constitution, their nominal and their paid-up capital, and all the details of management, nor were they obliged to publish any accounts. The public, consequently, were perfectly in the dark as to the magnitude and position of the bank, because they might advertise that their nominal capital was £1,000,000, divided into any number of shares. But no one had any means of knowing how many of the shares were taken and paid upon. Consequently, although the capital of the bank might be advertised in the papers as £1,000,000, no one could tell whether it had *bonâ fide* £500 paid up.

14. The first few joint stock banks having been apparently successful, naturally turned speculation into that channel. Numbers of new banks were started in all parts of the country, and many private bankers, fearing that the competition would be too powerful for them, united and formed themselves into joint stock banks. The rapid growth of these establishments led to much mismanagement, and many disasters, as might have been expected and Committees of the House of Commons were appointed to inquire into the subject in 1836-7 and 1840-1.

15. The great abuses which were revealed in the course of these inquiries determined Sir Robert Peel, who was supposed to be the minister who *par excellence* understood banking, to bring in a bill to regulate the future constitution of these estab-

lishments. An Act, containing many elaborate provisions for this purpose, was accordingly passed, Statute 1844, c. 113. Fully admitting the enormous evils which this Act was intended to remedy, we will only say that a more unfortunate specimen of legislation, or one more entirely unsuitable to the nature of the business it related to, has not emanated from Parliament in recent times; and, being found to be an unmitigated nuisance, without any counterbalancing advantages, it was wholly repealed in 1857.

16. We have already said that Sir Robert Peel's Joint Stock Banking Act, Statute 1844, c. 113, was found to be wholly unsuitable for the purposes it was intended, and totally repealed. This was done by the Act, Statute 1857, c. 49. The principal provisions of this Act are as follows:—

I. Every company formed under the Acts, Statute 1844, c. 113, or the Statute 1845, c. 75, were to register themselves before the 1st January, 1858, under the said Act, under severe penalties.

II. Any banking company, consisting of seven or more persons, having a capital of a fixed amount, divided into shares also of a fixed amount, and legally carrying on the business of banking before the passing of the Act, may register itself under this Act, and then all provisions of any Act, letters patent, or deed of settlement constituting or regulating the company, as are inconsistent with the Joint Stock Companies' Acts, 1856, 1857, or with the said Act, are thereby repealed in regard to that Company.

III. The above Banking Acts were then repealed as to any future companies, and as to existing companies, as soon as they were registered under this Act.

IV. Seven, or more, persons might register themselves as a company, other than a limited company, under this Act, provided the shares into which the capital of the company is divided are not less than £100 each.

V. The number of partners permitted in a private bank is extended to ten.

17. The question of admitting the principle of limited liability into commercial partnerships in this country has long been debated with much acrimony. The old theory of the law was expressed by Lord Eldon, who said that a man who entered into a commercial partnership, rendered himself liable "to his last shilling and his last acre" for the debts of the company. And this, no doubt, was true, as far as regards ordinary private partnerships. But many great companies had been formed and incorporated, in which the privilege of limited liability was specially conferred upon them. A principle may be good when applied to ordinary traders, who are supposed all to take an active part in the business, and to be each and all parties to

every transaction. But in the case of great companies it is rather different. In them the great majority of the partners are specially debarred from all knowledge of the real nature of the transactions, which are expressly left in the hands of a small committee. Now, as there are many great objects in commerce which can only be carried by means of a great company, and it was obviously desirable that they should be carried out, it has long been the practice in granting Acts to these companies to limit the liability of the shareholders. This was done in the case of the Bank of England itself; in railway and other companies, also, almost universally, in the charters granted to Colonial banks. But for a very long time the application of this principle to private partnerships in England was vehemently resisted. However, this resistance was overcome in 1855, and in that year an Act was passed, Statute 1855, c. 133, to permit the formation of joint stock companies with limited liability. However, although the principle was conceded as to other companies, joint stock banks were still most jealously excluded, on account of some unintelligible distinction between their trading and other trading. In the joint stock banking Act, of 1857, this exclusion was still strictly maintained. But the terrible examples of the failures of joint stock banks in 1857, at last compelled the Legislature to yield, and, in 1858, an Act was passed to extend limited liability to banks.

The chief provisions of this Act, Statute 1858, c. 91, are:—

I. So much of the last mentioned Statute of 1857, as prevented banks being formed on the principle of limited liability, was repealed.

II. All banks which issue promissory notes are subject to unlimited liability, as far as regards their notes, for which they are to be liable, in addition to the sum for which they are to be liable to the general creditors.

III. Every existing banking Company, may register itself under this Act, upon giving thirty days' notice, to each and all of its customers. Any customer to whom it may fail to send notice retaining his full rights as before.

IV. All companies formed, or registering themselves, under this Act, must on the 1st February and 1st August, in each year, post up in a conspicuous place in its head office, and each branch, a statement of its liabilities and assets, made up in a form prescribed by the Act.

18. When, in the course of less than thirty-five years, men had seen the whole of England shaken, from end to end, by those tremendous banking catastrophes, which seemed to be of periodical recurrence, they turned to the example of a country, where, though there had been commercial difficulties, there never had been any banking disasters at all comparable to those of England. Many private bankers, it is true, had failed, but,

except the Ayr Bank, up to 1826, no joint stock bank in Scotland had failed. A very strong and general demand therefore arose for the Scotch system, many men thinking, that because the Scotch banks were joint stock banks, that, therefore, joint stock banking was all that was requisite to attain security. When, therefore, the monopoly of the Bank was to a certain extent broken up in 1826, they expected to enjoy similar prosperity and safety to what Scotland had done, and when, after an experience of fourteen years, they found that the joint stock banks were scarcely more secure and equally ill-managed as the private banks, great and bitter disappointment ensued, and joint stock banking became a bye word of reproach.

But in truth the causes of this are very evident. In Scotland the growth of banking had been extremely gradual. The first joint stock bank was founded in 1695, the second in 1727, the next in 1747, and, except a few country ones, no new one of any magnitude was founded till 1810. The consequence was that they gradually expanded with the increasing wealth of the country. They grew with its growth. Moreover, they correspondingly increased their capital. They acquired great experience, after committing many errors, which brought them to the brink of destruction. When the country required additional accommodation, it was done chiefly by throwing out branches from the parent establishments in the metropolis, so that they had all the experience and effective control of the superior officers. At present, there are but twelve distinct establishments in the country, but these have 681 branches extending into every village in the kingdom, so that banking accommodation is ample and abundant. But these are all independent institutions, depending upon their own wealth and resources, and except, perhaps, in the case of a sudden run upon one of them, never seeking assistance from each other. To suppose that the English system of joint stock banking bore any similarity to this would be a most egregious fallacy, and it was this difference chiefly which led to those disastrous consequences which so completely falsified the expectations which were formed on the introduction of joint stock banking into this country.

19. There are, in truth, laws of nature in the industrial world, as well as in the moral and physical world; and a systematic attempt to violate these terminates in disaster, as surely and as certainly as a systematic disregard of the laws of nature in the physical world. It may be a long time before the mischief is developed, nay, for a considerable time, the results may appear to be beneficial, but in the long run the faulty principle is sure to produce its fruits—

“ Raro antecedentem scelestum,  
Deseruit pede pœna claudo.”



Now, the great law of nature in the industrial world is **FREE TRADE**. There is nothing more certain in all the range of science, than that exclusive privileges in commerce are great violations of natural right. Trading monopolies are moral crimes. When Parliament sold to the Bank of England the exclusive monopoly of banking, it **SOLD WHAT IT HAD NO RIGHT TO SELL**. It had no more right to sell to one body of persons the right of carrying on the business of banking than it had to sell a monopoly of the business of bookselling, or leather dressing, or any other trade whatever. This monopoly was as unjust and as pernicious as any of those which the Commons of Elizabeth and James I. had rebelled against. For a considerable period everything seemed to go well. The Bank of England rendered unquestionable services to the State—so might any other trading corporation in its line—and any other corporation might have done the same, if they had been permitted. But, nevertheless, the principle of the monopoly was utterly vicious; and Time, the avenger, brought retribution at last. Injustice slumbers long, but it is sure to have its revenge at last. When, in the natural course of events, the commerce and wealth, and increasing spirit of enterprise, demanded an increased currency, and, save for this monopoly, powerful and wealthy companies would have been formed in the metropolis with ramifications all over the country, these unjustifiable privileges of the Bank prevented them. The Bank would neither supply this currency itself, nor permit any other powerful company to do so. The consequence was that the duty of supplying the necessary currency fell into the hands of any grocer, or tailor, or cheesemonger who chose to call himself a banker. Their power was unlimited. Then came 1793; then 1797; then the long series of disasters from 1810 to 1816; and then 1825.

When these terrible lessons effected a breach in the monopoly of the Bank, it was only a partial one, a large portion still remained and exercised its deadly influence. When the new joint stock banks were formed they were merely local banks, all as dependent on the Bank of England as the private banks had been. The Bank maintained its exclusive privileges within sixty-five miles of the metropolis; and this was the inherent vice of the English system of joint stock banking. Instead of being independent banks, strong in their own resources, and able of their own strength to withstand a shock, they were carried on upon the most dangerous principle of rediscounting the bills they bought, as indeed they could not help doing; thus their very existence depended upon the Bank of England and the London bill brokers.

20. To suppose that this in any way resembled the Scotch system would be a gross fallacy; the English banks were for-

bidden to have establishments in the metropolis, which, of all others, is the best feature in the Scotch system. We have already pointed out that capital has a tendency to accumulate in certain districts of the country, where there is not sufficient demand for it, and in others there is a greater demand for it than the district supplies. Now, in the English system, the bankers in the former part of the country remit money to London to be held in deposit for them, and in the latter the bankers remit their bills to be rediscounted, and have the money remitted. Now, this legitimate operation, which is all done by one establishment in Scotland, requires three distinct and independent establishments to do it in England, and has given rise to that system of rediscounting which is so perilous and so objectionable. *But it is the natural result of the monopoly of the Bank.* Because, if it had not been for that, these three establishments would all have been under one control and management; under the present system they are three different and frequently conflicting interests.

And this great violation of natural justice manifested its evil consequences in many other striking ways. No man of common sense now disputes the great principles laid down by the Irish Committee of 1804, the Bullion Report of 1810, and the authors of the Act of 1819, that the paper currency must be governed by the exchanges. But long after the directors of the Bank of England had learnt this principle, and professed to govern her issues by the exchanges, they complained loudly and justly that their efforts to contract their own issues in an adverse exchange were counteracted by the issues of the country banks, and that as soon as they withdrew their paper, the vacuum was immediately filled up by country issues. The reason is very manifest. The Bank of England, being situated at the heart of the exchanges, felt the danger, and saw the necessity of contracting her issues; the country banks, being situated at a distance, knew and cared nothing about the exchanges; nay, they continually professed that their issues had nothing to do with the exchanges, and naturally, whenever they saw an opening, issued their paper.

Now, if it had not been for this iniquitous monopoly of the Bank, what would probably have been the condition of English Banking at the present day? There would have probably been thirty or forty great banks in the metropolis, each as great as the present Bank of England, with ramifications and branches all over the country. It would, in fact, have been the Scotch system on a much larger scale—one commensurate with the greater magnitude of the country. It would have been one great monetary nervous system. If this had been the case, they would have been acted upon immediately by the exchanges. London, being the centre of the exchanges, any drain of gold would have caused immediate measures of counteraction, which

would have been propagated and enforced, by the parent establishment all over the country. The tremor of the exchanges would have been instantly felt in every village in the kingdom. Thus, under a natural system, any effect in London would have vibrated through all England, and no country banks could possibly have acted in opposition to the ones in London. And this is the result to which the banking system of the country is slowly gravitating, and which it will ultimately assume. And if this, which is the natural system, had been allowed to grow up from the beginning, we believe that those great banking catastrophes, never would have occurred. If any crisis had occurred, they would have stood by and assisted one another, but, when any shock did occur under the unfortunate system which has prevailed, the country banks have all depended on the Bank of England for their very existence.

21. It is a melancholy reflection that these great changes cannot take place without producing much injury to private individuals. The very obnoxious law itself gave birth to the business of a number of persons, which the removal of the shackles of monopoly must necessarily extinguish. In 1832, the banking witnesses felt that the establishment of joint stock banks would be fatal to the existence of many of the private bankers, and some went so far as to wish to prohibit them on that account. Since these 34 years have passed, we have undergone a mighty revolution of opinion in commercial matters. The ideas of that age are now as antiquated and obsolete as those of the men before the flood. Then, the general public was supposed to be made for the benefit of each separate monopoly, and interest, and class. But now all that is changed. It was akin to the great Ricardian heresy, that cost of production regulates value. Every interest which had bestowed labour and expense in making productions, was allowed to hold the public in thralldom. The value of the law appeared to be measured by the quantity of labour bestowed in mastering its disgusting intricacies and technicalities. Obstinate pedants maintained it gravely as a valid argument for upholding all the old abuses of the law, that great and eminent men had bestowed so much labour and unhappy diligence in accumulating so much legal lore. What, said they, is the fruit of so much ingenuity to be thrown away? In fact, they determined upon loading the public with all sorts of oppression, for the sake of preserving a fictitious value to so much misdirected industry.

22. But all these ideas are now past and gone. They were congenial to times when education was narrowed to a small and select circle, and the general public was in a state of helpless and inert ignorance. But they have all been swept away, before

the advancing tide of public intelligence. It is now well settled that the community in general, is not made for the benefit of agriculturists, or manufacturers, or lawyers, or bankers, or any set of men whatever, but they are for the benefit of the country. It is the wants of the community which must give rise to the value of their occupations; and all who engage in them, must regard them as purely commercial speculations. The wants and requirements of all, are not to be restricted or moulded by legislation to be subservient to the advantages of a few, but the interests of particular classes must be subordinate to the necessities of all.

23. We have carefully and purposely abstained throughout this work from making any invidious comparison between the merits of private and joint stock banking. All we say is, let each of them have full and fair play, and let the public generally choose which they think most suitable for their purpose. Some will prefer one, and some the other. Each then will find its own level; and the public wants will maintain in existence a sufficient supply of each. But it is impossible to be blind to facts. It is impossible not to see that the days of the private bankers, generally, in England, are numbered. A few of the most eminent may long continue to flourish; houses which are an honor to commerce, and present all the security and power of any joint stock bank. But it is impossible not to see that the force of nature is against them. The connections of the joint stock banks are so numerous, and ramified through all ranks of society, that inevitable decay awaits the great bulk of private banks. They will maintain their hereditary and long-established connections for some time to come, but most of the new business will go to the joint stock banks. Every ease of failure and mismanagement of a private banker will tend to shake the credit of the majority of the remainder. But no failure of a joint stock bank can destroy the system, because, however much the shareholders may suffer, the customers and depositors will seldom suffer.

24. We have now brought this work to a conclusion. In the course of it we have had to differ from many persons who are considered as authorities on the subject. But if we had not perceived what we felt to be great errors in their writings there would have been no need of attempting it. But we have not gone beyond that freedom of discussion which is the very life-blood of knowledge. The same evil which infected the progress of every other branch of philosophy, injuriously affects this subject at the present day—running after *authorities*,—quoting authorities on one side or the other, without ever investigating or reflecting whether what these so-called authorities say is

true, in many cases without sufficient knowledge of the subject to decide. In matters of taste, authorities are much—in matters of science authorities are NOTHING. We acknowledge no authority. We have great respect for the industry, and ability, and sagacity which have won so honorable a name for Adam Smith, and succeeding writers. But we refuse to be bound by Adam Smith, or by what any one says, unless we are satisfied that what they say is true. We have not been deterred from exercising the same free and boundless right of examining and discussing every opinion and doctrine put forth by them, exactly as all the greatest philosophers do with regard to Newton. They examine, discuss, and reject, whatever is unsound in Newton with unlimited freedom. They only accept what they know and feel to be irresistibly true, according to an acknowledged standard of truth. They do not receive it *because* Newton says it, but because it is true. We do the same. We have endeavoured rigidly to adhere to the same method. They deduce their general rules from the accurate examination and description of experiments; we endeavour to deduce general rules from an accurate observation and description of monetary phenomena, and we appeal to the same great general principles of reasoning that they do. It is the Baconian method; the only method of discovering and erecting a solid edifice of science. Except in those abstruse mysteries of nature which far transcend the limits of the capacity of the great majority of mankind to discover, or even to comprehend, there is no nobler field open at the present day for the extension of scientific research than Political Economy. But it must be done in the rigid method of the Baconian system; no other can lead to solid and durable success. The army of Bacon has gone forth conquering and to conquer, and must never pause in its victorious career, until universal science is brought under the dominion of the Monarch of Philosophy.

THE END.





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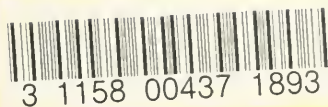
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